

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name County of Luce, Michigan	County Luce
Fiscal Year End December 31, 2007	Opinion Date June 15, 2008	Date Audit Report Submitted to State June 30, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma, CPA	License Number 1101024989

County of Luce, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2007

LUCE COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

CHAIR PERSON	TERRY STARK
VICE CHAIR PERSON	PHYLLIS FRENCH
COMMISSIONER	RITA LEMANEK
COMMISSIONER	JILL MAKI
COMMISSIONER	NANCY MORRISON

ELECTED OFFICIALS

COUNTY TREASURER	DEBORAH JOHNSON
COUNTY CLERK	KATHY MAHAR

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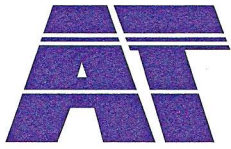
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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and
Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Luce, Michigan as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Luce County Road Commission and the Helen Newberry Joy Hospital which represents 80% and 79% of the assets and revenues of the Discretely Presented Component Units for the County of Luce, Michigan. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it related to the amounts recorded, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Luce, Michigan as of December 31, 2007, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2008 on our consideration of the County of Luce's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Luce, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the County of Luce. The accompanying schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2008

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

Luce County is the 14th largest county in Michigan in total acreage but 2nd to the last in taxable value due to the fact that well over 50% of the land is State owned, Commercial Forest property, or tax exempt. The County still has to provide law enforcement and rescue services to the entire county which presents quite a challenge to the Board of Commissioners.

The 2007 General Fund revenues increased by about \$140,222 from 2006 mainly due to an increase in property taxes, a federal grant to purchase a sheriff department vehicle, interest earned, and a transfer from obligated debt due to over collection of the hospital bond.

In a condensed format, the table below shows the net assets of Luce County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 3,551,905	\$ 3,524,432	\$ 721,309	\$ 686,916	\$ 4,273,214	\$ 4,211,348
Noncurrent Assets	<u>3,682,703</u>	<u>3,336,779</u>	<u>-</u>	<u>-</u>	<u>3,682,703</u>	<u>3,336,779</u>
Total Assets	<u>\$ 7,234,608</u>	<u>\$ 6,861,211</u>	<u>\$ 721,309</u>	<u>\$ 686,916</u>	<u>\$ 7,955,917</u>	<u>\$ 7,548,127</u>
Current Liabilities	\$ 818,883	\$ 746,537	\$ 286,499	\$ 304,527	\$ 1,105,382	\$ 1,051,064
Noncurrent Liabilities	<u>432,203</u>	<u>541,806</u>	<u>-</u>	<u>-</u>	<u>432,203</u>	<u>541,806</u>
Total Liabilities	<u>1,251,086</u>	<u>1,288,343</u>	<u>286,499</u>	<u>304,527</u>	<u>1,537,585</u>	<u>1,592,870</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	3,220,764	2,749,646	-	-	3,220,764	2,749,646
Restricted for Debt	301,984	484,898	-	-	301,984	484,898
Restricted for						
Revenue Sharing	395,866	515,445	-	-	395,866	515,445
Unrestricted	<u>2,064,908</u>	<u>1,822,879</u>	<u>434,810</u>	<u>382,389</u>	<u>2,499,718</u>	<u>2,205,268</u>
Total Net Assets	<u>\$ 5,983,522</u>	<u>\$ 5,572,868</u>	<u>\$ 434,810</u>	<u>\$ 382,389</u>	<u>\$ 6,418,332</u>	<u>\$ 5,955,257</u>

The current level of unrestricted net assets for our governmental activities stands at \$2,064,908 or about 59% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased approximately 7.4%. Net Assets of the business – type activities decreased approximately 13.7%.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 616,903	\$ 787,153	\$ 103,964	\$ 115,883	\$ 720,867	\$ 903,036
Operating Grants and Contributions	580,074	652,898	-	8,554	580,074	661,452
Capital Grants and Contributions	590,441	235,000	-	-	590,441	235,000
General Revenues						
Property Taxes	1,706,717	2,246,367	-	-	1,706,717	2,246,367
Other	312,186	33,335	-	5,497	312,186	38,832
Unrestricted Investment Earnings	147,554	122,228	18,234	13,317	165,788	135,545
Gain (Loss) on Equipment Disposal	(34,461)	-	-	-	(34,461)	-
Transfers	(5,527)	61,896	5,527	(61,896)	-	-
Total Revenues	<u>3,913,887</u>	<u>4,138,877</u>	<u>127,725</u>	<u>81,355</u>	<u>4,041,612</u>	<u>4,220,232</u>
Program Expenses						
Legislative	75,723	55,212	-	-	75,723	55,212
Judicial	607,235	531,088	-	-	607,235	531,088
General Government	643,405	664,072	-	-	643,405	664,072
Public Safety	769,357	661,519	-	-	769,357	661,519
Public Works	333,328	284,583	-	-	333,328	284,583
Health and Welfare	460,722	478,363	-	-	460,722	478,363
Community Economic Development	83,899	69,237	-	-	83,899	69,237
Recreation and Culture	259,522	231,792	-	-	259,522	231,792
Other Expenses	270,042	327,862	-	-	270,042	327,862
Tax Collection	-	-	25,312	21,829	25,312	21,829
Other	-	-	49,992	59,952	49,992	59,952
Total Expenses	<u>3,503,233</u>	<u>3,303,728</u>	<u>75,304</u>	<u>81,781</u>	<u>3,578,537</u>	<u>3,385,509</u>
Changes in Net Assets	410,654	835,149	52,421	(426)	463,075	834,723
Beginning Net Assets	<u>5,572,868</u>	<u>4,737,719</u>	<u>382,389</u>	<u>382,815</u>	<u>5,955,257</u>	<u>5,120,534</u>
Ending Net Assets	<u>\$ 5,983,522</u>	<u>\$ 5,572,868</u>	<u>\$ 434,810</u>	<u>\$ 382,389</u>	<u>\$ 6,418,332</u>	<u>\$ 5,955,257</u>

Governmental Activities

Revenue from property taxes decreased 24% from the previous year losing, \$539,650. The decrease was mostly caused by the conclusion of the tax shift to fund revenue sharing. Average gain from property taxes over the previous five years was \$174,120 per year.

Business-Type Activities

The County business-type activities are multi-faceted. They range from Tax Collection, Building Department, Airport, and County Park. The Tax Collection funds significantly support the General and Special Revenue Funds.

The County's Funds

Our analysis of the County's major funds begins on page 9 following the entity wide financial statements. The individual fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2007 include the General Fund, Revenue Sharing Reserve, Ambulance, Parks and Recreation, Coop Extension Service, Hospital Bond Debt Service, Airport, 2005 Delinquent Tax Fund, 2006 Delinquent Tax Fund, and the Tax Revolving Reserve Fund.

The General Fund supports most of the County's governmental services. The costliest are the police, court, and law enforcement functions. The Tax Revolving Reserve Fund is supported by interest and fees from the collection of taxes.

Component Units of the County include: Luce County Road Commission, Luce-Mackinac-Alger-Schoolcraft (LMAS) District Health Department, Luce County Housing Commission, Luce County Economic Development Corporation, and Helen Newberry Joy Hospital. Financial information for these component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from each component unit's office as stated in Note 1.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Board of Commissioner's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, the Board reviews and authorizes large expenditures when requested throughout the year.

Major changes to the original revenue budget were due to an increase in current taxes, a federal grant for the purchase of a vehicle for sheriff department and interest earned.

Major increases to the original expense budget were due to purchase of a vehicle for sheriff department, increase in prisoner board and prisoner medical costs, increase in fuel costs, and increase in insurance costs.

Other Funds

New fund added in 2007 was Fund 629, 2006 Tax Revolving Fund.

Fund deleted in 2007 was Fund 263, Fingerprint System Fund.

Capital Asset and Debt Administration

During 2007, the County shows investments of \$617,277 in capital assets that met the dollar threshold of the reporting requirement. Purchases made in 2007 included snowmobiles, three high band radios, three radio tower antennas, boat with motor, and trailer, Durango, and lighthouse renovations. Disposals for 2007 included lots in industrial park, old northern casting building, two Ford Crown Victorias, and two snowmobiles.

The County reduced its bond and note debt load by \$434,956 in principal payments in 2007, ending with a debt balance of \$734,268. \$336,346 was for payments on delinquent taxes with the balance being put toward bonds for the DPW Sewer, Parks and Recreation, General Obligation Bonds and Capital Development Bonds.

Economic Factors and Next Year's Budgets and Rates

The County is in a budget battle from year to year. The cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance as well as increased fuel costs, have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all major funds, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

The local economy is heavily dependent on the Newberry Correctional Facility which employees 340 workers in Luce County. If the facility was to close, it would have a tremendous negative impact on the local economy.

Component Unit

A complete financial statement and management's discussion and analysis may be obtained from the LMAS District Health Department, Luce County Housing Commission, Luce County Road Commission, and Helen Newberry Joy Hospital.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Clerk's Office at (906) 293-5521.

Basic Financial Statements

Statement of Net Assets
December 31, 2007

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
ASSETS:				
Current Assets:				
Cash & Investments - Unrestricted	\$ 2,537,229	\$ 411,871	\$ 2,949,100	\$ 5,670,064
- Restricted	100,000	-	100,000	903,551
Receivables:				
Accounts	216,345	-	216,345	5,434,013
Taxes	564,826	271,641	836,467	-
Interest	-	3,946	3,946	-
Loans	-	-	-	1,352,053
Internal Loans	4,105	(4,105)	-	-
Due from Governmental Units	88,343	-	88,343	237,135
Inventories	27,329	-	27,329	759,402
Prepaid Expenses	13,728	-	13,728	469,444
Other Assets	-	37,956	37,956	116,527
Non-Current Assets:				
Capital Assets Not Depreciated	1,555,424	-	1,555,424	156,891
Capital Assets (Net of Accumulated Depreciation)	2,127,279	-	2,127,279	15,319,327
TOTAL ASSETS	\$ 7,234,608	\$ 721,309	\$ 7,955,917	\$ 30,418,407
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 138,642	\$ 131	\$ 138,773	\$ 1,475,811
Accrued Liabilities	49,583	1,045	50,628	1,665,956
Accrued Interest Payable	9,532	-	9,532	-
Due to Governmental Units	-	-	-	10
Deferred Revenue	510,476	-	510,476	1,005
Other Liabilities	-	-	-	122,203
Notes Payable	7,884	285,323	293,207	277,975
Bonds Payable	96,000	-	96,000	248,245
Capital Leases Payable	6,766	-	6,766	-
Compensated Absences	-	-	-	5,511
Non-Current Liabilities:				
Advances	-	-	-	113,379
Notes Payable	24,061	-	24,061	4,613,790
Bonds Payable	321,000	-	321,000	297,783
Capital Leases Payable	6,228	-	6,228	-
Compensated Absences	80,914	-	80,914	453,585
TOTAL LIABILITIES	1,251,086	286,499	1,537,585	9,275,253
NET ASSETS:				
Invested in Capital Assets (net of related debt)	3,220,764	-	3,220,764	10,177,025
Restricted for County Road	-	-	-	1,032,235
Restricted for Debt Service	301,984	-	301,984	-
Restricted for Revenue Sharing	395,866	-	395,866	-
Restricted for Housing	-	-	-	41,461
Unrestricted	2,064,908	434,810	2,499,718	9,892,433
TOTAL NET ASSETS	\$ 5,983,522	\$ 434,810	\$ 6,418,332	\$ 21,143,154

See accompanying notes to financial statements.

County of Luce, Michigan

Statement of Activities For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 75,723	\$ -	\$ -	\$ -	\$ (75,723)	\$ -	\$ (75,723)	\$ -
Judicial	607,235	134,071	202,657	-	(270,507)	-	(270,507)	-
General Government	643,405	76,388	33,364	-	(533,653)	-	(533,653)	-
Public Safety	769,357	98,410	156,860	132,191	(381,896)	-	(381,896)	-
Public Works	333,328	52,820	92,366	458,250	270,108	-	270,108	-
Health & Welfare	460,722	205,453	82,563	-	(172,706)	-	(172,706)	-
Community/Economic Development	83,899	2,791	-	-	(81,108)	-	(81,108)	-
Recreation and Culture	259,522	46,970	12,264	-	(200,288)	-	(200,288)	-
Other	270,042	-	-	-	(270,042)	-	(270,042)	-
Total Governmental Activities	3,503,233	616,903	580,074	590,441	(1,715,815)	-	(1,715,815)	-
Business-type activities:								
Tax Collection	25,312	67,285	-	-	-	41,973	41,973	-
Other	49,992	36,679	-	-	-	(13,313)	(13,313)	-
Total Business-type Activities	75,304	103,964	-	-	-	28,660	28,660	-
Total Primary Government	\$ 3,578,537	\$ 720,867	\$ 580,074	\$ 590,441	(1,715,815)	28,660	(1,687,155)	-
Component Units:								
Road Commission	\$ 2,887,177	\$ 685,645	\$ 1,759,268	\$ 712,534				270,270
LMAS District Health Department	6,313,880	4,373,649	1,929,951	-				(10,280)
Economic Development	913,579	383,982	-	-				(529,597)
Housing Commission	628,769	128,441	558,137	-				57,809
Helen Newberry Joy Hospital	25,345,441	24,965,319	-	-				(380,122)
Total Component Units	36,088,846	30,537,036	4,247,356	712,534				(591,920)
Total	\$ 39,667,383	\$ 31,257,903	\$ 4,827,430	\$ 1,302,975				
General Revenues:								
Taxes					1,706,717	-	1,706,717	-
Local Sources and Other					312,186	-	312,186	80,847
Investment Earnings (Loss)					147,554	18,234	165,788	202,268
Gain (Loss) on Equipment Disposal					(34,461)	-	(34,461)	2,000
Transfers					(5,527)	5,527	-	-
Total General Revenues and Transfers					2,126,469	23,761	2,150,230	285,115
Changes in Net Assets					410,654	52,421	463,075	(306,805)
Net Assets - Beginning					5,572,868	382,389	5,955,257	21,449,959
Net Assets - Ending					\$ 5,983,522	\$ 434,810	\$ 6,418,332	\$ 21,143,154

See accompanying notes to financial statements.

County of Luce, Michigan

Balance Sheet Governmental Funds December 31, 2007

	General	Ambulance	Parks & Recreation	Coop Extension Services	Revenue Sharing Reserve	Airport	Hospital Bond Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:									
Cash & Investments - Unrestricted	\$ 793,388	\$ 589,651	\$ 28,517	\$ 17,899	\$ 395,866	\$ 8,715	\$ 201,984	\$ 501,209	\$ 2,537,229
- Restricted	-	-	-	-	-	-	100,000	-	100,000
Receivables:									
Accounts	37,004	136,985	-	-	-	1,351	-	41,005	216,345
Taxes	81,463	162,943	84,893	84,893	-	84,893	-	65,741	564,826
Due from Other Funds	46,084	-	-	-	-	-	-	2,599	48,683
Due from Governmental Units	-	-	-	-	-	-	-	88,343	88,343
Inventories	-	-	-	-	-	27,329	-	-	27,329
Prepaid Expenses	13,728	-	-	-	-	-	-	-	13,728
TOTAL ASSETS	<u>\$ 971,667</u>	<u>\$ 889,579</u>	<u>\$ 113,410</u>	<u>\$ 102,792</u>	<u>\$ 395,866</u>	<u>\$ 122,288</u>	<u>\$ 301,984</u>	<u>\$ 698,897</u>	<u>\$ 3,596,483</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,578	\$ 44,578
Accounts Payable	31,838	8,010	1,265	7,388	-	20,834	-	69,307	138,642
Accrued Liabilities	31,751	8,300	1,446	1,244	-	1,528	-	5,314	49,583
Deferred Revenue	27,113	162,943	84,893	84,893	-	84,893	-	65,741	510,476
TOTAL LIABILITIES	<u>90,702</u>	<u>179,253</u>	<u>87,604</u>	<u>93,525</u>	<u>-</u>	<u>107,255</u>	<u>-</u>	<u>184,940</u>	<u>743,279</u>
FUND BALANCES:									
Reserved	-	-	-	-	395,866	-	301,984	-	697,850
Unreserved									
Designated for Special Purposes	-	-	-	-	-	-	-	12,946	12,946
Undesignated	880,965	710,326	25,806	9,267	-	15,033	-	501,011	2,142,408
TOTAL FUND BALANCES	<u>880,965</u>	<u>710,326</u>	<u>25,806</u>	<u>9,267</u>	<u>395,866</u>	<u>15,033</u>	<u>301,984</u>	<u>513,957</u>	<u>2,853,204</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 971,667</u>	<u>\$ 889,579</u>	<u>\$ 113,410</u>	<u>\$ 102,792</u>	<u>\$ 395,866</u>	<u>\$ 122,288</u>	<u>\$ 301,984</u>	<u>\$ 698,897</u>	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities	3,682,703
Long-term notes & leases payable for governmental activities	(461,939)
Compensated absences liability	(80,914)
Accrued interest payable	(9,532)
Net assets of governmental activities	<u>\$ 5,983,522</u>

County of Luce, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2007

	General	Ambulance	Parks & Recreation	Coop Extension Services	Revenue Sharing Reserve	Airport	Hospital Bond Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:									
Taxes	\$ 1,243,592	\$ 161,673	\$ 78,349	\$ 78,349	\$ -	\$ 78,349	\$ 1,196	\$ 65,209	\$ 1,706,717
Licenses & Permits	10,791	-	-	-	-	-	-	1,538	12,329
Federal Sources	165,608	-	-	-	-	376,000	-	160,473	702,081
State Sources	96,404	-	-	6,910	-	82,250	-	282,870	468,434
Local Sources	19,543	6,469	3,136	3,136	-	3,135	-	99,226	134,645
Charges for Services	183,617	201,987	6,948	-	-	52,820	-	159,202	604,574
Interest & Rentals	82,967	19,351	1,432	1,282	-	3,570	19,645	19,307	147,554
Fines and Forfeitures	5,978	-	-	-	-	-	-	3,562	9,540
Other Revenue	119,377	3,080	670	-	-	8,076	-	36,798	168,001
TOTAL REVENUES	1,927,877	392,560	90,535	89,677	-	604,200	20,841	828,185	3,953,875
EXPENDITURES:									
Legislative	75,723	-	-	-	-	-	-	-	75,723
Judicial	574,033	-	-	-	-	-	-	33,202	607,235
General Government	631,347	-	-	-	-	-	-	11,076	642,423
Public Safety	492,238	-	-	-	-	-	-	391,000	883,238
Public Works	-	-	-	-	-	144,347	-	106,766	251,113
Health & Welfare	11,194	328,491	-	-	-	-	-	59,281	398,966
Community/Economic Development	-	-	-	-	-	-	-	83,899	83,899
Recreation & Cultural	-	-	79,490	96,548	-	-	-	48,711	224,749
Capital Outlay	-	10,866	-	-	-	470,000	-	39,589	520,455
Debt Service	-	-	-	-	-	-	-	122,801	122,801
Other Expenditures	195,938	-	-	-	-	-	-	-	195,938
TOTAL EXPENDITURES	1,980,473	339,357	79,490	96,548	-	614,347	-	896,325	4,006,540
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,596)	53,203	11,045	(6,871)	-	(10,147)	20,841	(68,140)	(52,665)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	323,572	-	-	-	-	-	-	141,968	465,540
Operating Transfers Out	(70,807)	(67,343)	-	-	(119,579)	-	(203,755)	(9,583)	(471,067)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	200,169	(14,140)	11,045	(6,871)	(119,579)	(10,147)	(182,914)	64,245	(58,192)
FUND BALANCES, JANUARY 1	680,796	724,466	14,761	16,138	515,445	25,180	484,898	449,712	2,911,396
FUND BALANCES, DECEMBER 31	\$ 880,965	\$ 710,326	\$ 25,806	\$ 9,267	\$ 395,866	\$ 15,033	\$ 301,984	\$ 513,957	\$ 2,853,204

See accompanying notes to financial statements.

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2007**

Net Changes in fund balances - total governmental funds \$ (58,192)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$617,277 exceeded depreciation (\$236,892) and loss on disposal (\$34,461) in the current period. 345,924

Governmental funds report repayment of principal as an expenditure in the governmental funds, but it reduces the liability in the statement of net assets.

Principal repayments:		
Bonds & Notes Payable	98,610	
Capital Leases	<u>26,584</u>	125,194

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated Absences	(2,814)	
Accrued Interest Expense	<u>542</u>	<u>(2,272)</u>
Changes in net assets of governmental activities		<u><u>\$ 410,654</u></u>

Statement of Net Assets
Proprietary Funds
December 31, 2007

	Enterprise Funds				
	2006 Tax Revolving	2005 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	Totals
ASSETS:					
Cash & Investments	\$ 39,053	\$ 17,733	\$ 173,457	\$ 181,628	\$ 411,871
Taxes Receivable	178,816	90,746	-	2,079	271,641
Accrued Interest Receivable	17,882	19,964	-	110	37,956
Other Assets	-	-	3,946	-	3,946
TOTAL ASSETS	\$ 235,751	\$ 128,443	\$ 177,403	\$ 183,817	\$ 725,414
LIABILITIES:					
Due to Other Funds	\$ 397	\$ -	\$ -	\$ 3,708	\$ 4,105
Accounts Payable	-	-	-	131	131
Accrued Liabilities	-	-	-	1,045	1,045
Notes Payable	203,062	82,261	-	-	285,323
TOTAL LIABILITIES	203,459	82,261	-	4,884	290,604
NET ASSETS:					
Unrestricted	32,292	46,182	177,403	178,933	434,810
TOTAL NET ASSETS	\$ 32,292	\$ 46,182	\$ 177,403	\$ 178,933	\$ 434,810

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2007**

	Enterprise Funds				
	2006 Tax Revolving	2005 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES:					
Charges for Services	\$ 11,913	\$ 5,806	\$ -	\$ 35,795	\$ 53,514
Interest & Rentals	31,561	18,005	-	884	50,450
Total Operating Revenues	43,474	23,811	-	36,679	103,964
OPERATING EXPENSES:					
Personal Services	-	-	-	42,546	42,546
Utilities	-	-	-	765	765
Other Supplies & Expenses	5,383	1,335	4,021	2,660	13,399
Total Operating Expenses	5,383	1,335	4,021	45,971	56,710
OPERATING INCOME (LOSS)	38,091	22,476	(4,021)	(9,292)	47,254
NON-OPERATING REVENUES (EXPENSES):					
Interest on Deposits	4,338	1,029	8,980	3,887	18,234
Interest Expense	(10,137)	(8,457)	-	-	(18,594)
Total Non-operating Revenues (Expenses)	(5,799)	(7,428)	8,980	3,887	(360)
INCOME (LOSS) BEFORE TRANSFERS	32,292	15,048	4,959	(5,405)	46,894
Operating Transfers In	-	-	-	7,902	7,902
Operating Transfers Out	-	-	(2,137)	(238)	(2,375)
CHANGES IN NET ASSETS	32,292	15,048	2,822	2,259	52,421
NET ASSETS, JANUARY 1	-	31,134	174,581	176,674	382,389
NET ASSETS, DECEMBER 31	\$ 32,292	\$ 46,182	\$ 177,403	\$ 178,933	\$ 434,810

County of Luce, Michigan

Statement of Cash Flows Proprietary Fund Types For the Year Ended December 31, 2007

	Enterprise Funds				
	2006 Tax Revolving	2005 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 319,270	\$ 172,706	\$ (3,946)	\$ 74,365	\$ 562,395
Payments to Suppliers	(477,480)	(58,533)	(4,180)	(20,146)	(560,339)
Payments to Employees	-	-	-	(27,683)	(27,683)
Net Cash Provided (Used) by Operating Activities	(158,210)	114,173	(8,126)	26,536	(25,627)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Notes	375,000	-	-	-	375,000
Principal Payments	(171,938)	(164,408)	-	-	(336,346)
Interest Expense	(10,137)	(8,457)	-	-	(18,594)
Net Cash Provided (Used) by Capital and Related Financing Activities	192,925	(172,865)	-	-	20,060
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
Operating Transfers In	-	-	-	7,902	7,902
Operating Transfers Out	-	-	(2,137)	(238)	(2,375)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	-	(2,137)	7,664	5,527
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Earnings	4,338	1,029	8,980	3,887	18,234
Net Cash Provided (Used) by Investing Activities	4,338	1,029	8,980	3,887	18,234
Net Increase (Decrease) in Cash and Equivalents	39,053	(57,663)	(1,283)	38,087	18,194
Balances - Beginning of the Year	-	75,396	174,740	143,541	393,677
Balances - End of the Year	\$ 39,053	\$ 17,733	\$ 173,457	\$ 181,628	\$ 411,871
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 38,091	\$ 22,476	\$ (4,021)	\$ (9,292)	\$ 47,254
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Change in Assets and Liabilities:					
Taxes Receivable	(178,816)	145,136	-	28,040	(5,640)
Accrued Interest Receivable	(17,882)	3,759	-	9,931	(4,192)
Due From Other Funds	-	-	(3,946)	-	(3,946)
Accounts Payable	-	-	-	(33)	(33)
Accrued Liabilities	-	-	(159)	708	549
Due to Other Funds	397	(57,198)	-	(2,818)	(59,619)
Net Cash Provided (Used) by Operating Activities	\$ (158,210)	\$ 114,173	\$ (8,126)	\$ 26,536	\$ (25,627)

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	<u>Agency Funds</u>
ASSETS:	
Cash & Investments - Unrestricted	\$ 805,221
Receivables:	
Accounts	6,566
Due from Other Governmental Units	<u>27,551</u>
 TOTAL ASSETS	 <u><u>\$ 839,338</u></u>
 LIABILITIES:	
Accounts Payable	\$ 26
Due to Other Governmental Units	24,105
Accrued Liabilities	6,535
Undistributed Tax Collections	746,342
Undistributed Receipts	<u>62,330</u>
 TOTAL LIABILITIES	 <u><u>\$ 839,338</u></u>

Component Unit Financial Statements

County of Luce, Michigan

Statement of Net Assets Component Units December 31, 2007

	Road Commission	LMAS Dist. Health Dept.	Economic Development Corporation	Housing Commission	Helen Newberry Joy Hospital	Totals
ASSETS:						
Current Assets:						
Cash & Investments - Unrestricted	\$ 767,173	\$ 696,856	\$ 669,516	\$ 1,233,611	\$ 2,302,908	\$ 5,670,064
- Restricted	-	-	-	-	903,551	903,551
Receivables:						
Accounts	330,532	1,057,456	678	7,872	4,037,475	5,434,013
Loans	-	-	1,352,053	-	-	1,352,053
Due from Other Governmental Units	-	237,135	-	-	-	237,135
Inventory	252,223	-	-	1,773	505,406	759,402
Prepaid Expense	96,631	4,119	-	5,021	363,673	469,444
Other Assets	-	-	-	-	116,527	116,527
Non-Current Assets:						
Capital Assets (not depreciated)	156,891	-	-	-	-	156,891
Capital Assets (net of accumulated depreciation)	5,712,829	115,436	97,326	592,390	8,801,346	15,319,327
TOTAL ASSETS	\$ 7,316,279	\$ 2,111,002	\$ 2,119,573	\$ 1,840,667	\$ 17,030,886	\$ 30,418,407
LIABILITIES:						
Current Liabilities:						
Accounts Payable	\$ 23,389	\$ 99,808	\$ 6,755	\$ 7,112	\$ 1,338,747	\$ 1,475,811
Due to Governmental Units	10	-	-	-	-	10
Accrued Liabilities	74,827	200,886	-	15,159	1,375,084	1,665,956
Deferred Revenue	1,005	-	-	-	-	1,005
ACH Payables	-	79,768	-	-	-	79,768
Other Liabilities	1,031	41,404	-	-	-	42,435
Compensated Absences	-	-	-	5,511	-	5,511
Notes Payable	-	-	19,800	-	258,175	277,975
Bonds Payable	-	-	-	30,000	218,245	248,245
Non-Current Liabilities:						
Advances	113,379	-	-	-	-	113,379
Notes Payable	-	-	118,800	-	4,494,990	4,613,790
Bonds Payable	-	-	-	90,000	207,783	297,783
Compensated Absences	200,683	249,309	-	3,593	-	453,585
TOTAL LIABILITIES	414,324	671,175	145,355	151,375	7,893,024	9,275,253
NET ASSETS:						
Invested in Capital Assets, net of related debt	5,869,720	115,436	97,326	472,390	3,622,153	10,177,025
Restricted for County Road	1,032,235	-	-	-	-	1,032,235
Restricted for Housing	-	-	-	41,461	-	41,461
Unrestricted	-	1,324,391	1,876,892	1,175,441	5,515,709	9,892,433
TOTAL NET ASSETS	6,901,955	1,439,827	1,974,218	1,689,292	9,137,862	21,143,154
TOTAL LIABILITIES AND NET ASSETS	\$ 7,316,279	\$ 2,111,002	\$ 2,119,573	\$ 1,840,667	\$ 17,030,886	\$ 30,418,407

County of Luce, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	LMAS District Health Department	Economic Development Corporation	Housing Commission	Helen Newberry Joy Hospital	
Road Commission:										
Public Works	\$ 2,887,177	\$ 685,645	\$ 1,759,268	\$ 712,534	\$ 270,270	\$ -	\$ -	\$ -	\$ -	\$ 270,270
LMAS District Health Dept.:										
Health & Welfare	6,313,880	4,373,649	1,929,951	-	-	(10,280)	-	-	-	(10,280)
Economic Development Corporation:										
Economic Development	913,579	383,982	-	-	-	-	(529,597)	-	-	(529,597)
Housing Commission:										
Public Housing	628,769	128,441	558,137	-	-	-	-	57,809	-	57,809
Helen Newberry Joy Hospital:										
Health & Welfare	25,345,441	24,965,319	-	-	-	-	-	-	(380,122)	(380,122)
Total Component Units	<u>\$ 36,088,846</u>	<u>\$ 30,537,036</u>	<u>\$ 4,247,356</u>	<u>\$ 712,534</u>	<u>270,270</u>	<u>(10,280)</u>	<u>(529,597)</u>	<u>57,809</u>	<u>(380,122)</u>	<u>(591,920)</u>
General Revenues:										
Investment Earnings					34,326	7,079	25,432	55,830	79,601	202,268
Gain (Loss) on Equipment Disposal					-	-	-	-	2,000	2,000
Other					-	66,404	165	14,278	-	80,847
Total General Revenues					<u>34,326</u>	<u>73,483</u>	<u>25,597</u>	<u>70,108</u>	<u>81,601</u>	<u>285,115</u>
Change in Net Assets					304,596	63,203	(504,000)	127,917	(298,521)	(306,805)
Net Assets - Beginning					<u>6,597,359</u>	<u>1,376,624</u>	<u>2,478,218</u>	<u>1,561,375</u>	<u>9,436,383</u>	<u>21,449,959</u>
Net Assets - Ending					<u>\$ 6,901,955</u>	<u>\$ 1,439,827</u>	<u>\$ 1,974,218</u>	<u>\$ 1,689,292</u>	<u>\$ 9,137,862</u>	<u>\$ 21,143,154</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Luce, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity

The County of Luce was incorporated under the laws of the State of Michigan in 1887 and operates under an elected Commission form of government and provides services to its more than 7,024 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the County of Luce (primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Component Units:

The County of Luce has considered all potential units in evaluating how to define the County for financial reporting purposes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement No. 14 as amended by Statement No. 39 of the Government Accounting Standards Board (GASB), The Financial Reporting Entity. The basic criteria include the appointment of a voting majority of the governing board of the unit; legal separation of the County and the component unit, fiscal independence of the unit, whether exclusion of the unit would make the County's financial statements misleading, and whether there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

These funds are included in the Primary Government financial statements. The County of Luce reports no funds that qualify as blended component units.

Discretely Presented Component Units

The component units column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of the component units:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Luce County Road Commission - The members of the governing board of the Road Commission are appointed by the County Commission. Although the County does not have the authority to approve or modify the Road Commission's operational and capital budgets, bonded debt must be approved by the County Commission.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

Luce County Road Commission
P.O. Box 401
Newberry, MI 49868

Luce-Mackinac-Alger-Schoolcraft (LMAS) District Health Department - The members of the governing body of the LMAS District Health Department are jointly appointed by the Luce, Mackinac, Alger, and Schoolcraft Counties' Commissions. The Health Department's operational and capital budgets are not subject to approval or modification by any governmental entity, and it establishes fees for various services and other activities. The Health Department financial statement disclosures contained herein are presented as of and for the year ended September 30, 2007.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

LMAS District Health Department
P.O. Box 398
Newberry, MI 49868

Luce County Housing Commission - The Commission is a legally separate entity whose five-member board is appointed by the County of Luce's Board of Commissioners. The Housing Commission provides subsidized housing financial assistance to lower income families.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

Luce County Housing Commission
550 W. Victory
Newberry, MI 49868

Luce County Economic Development Corporation - The Corporation is a legally separate non-profit corporation whose primary purpose is to promote economic development in the County of Luce. The nine-member board of the County of Luce Economic Development Corporation is appointed by the County of Luce's Board of Commissioners.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Helen Newberry Joy Hospital - The Hospital was organized under Public Act 230 of the Public Acts of 1987 and is a county hospital corporation. The Hospital provides inpatient, outpatient, and long-term care services primarily to the citizens of the County of Luce.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

Helen Newberry Joy Hospital
502 W. Harrie Street
Newberry, MI 49868

Condensed Financial Statements

The financial statements present condensed financial statements of each of the five discretely presented component units.

Jointly Governed Organization

Joint Venture Community Health Services - Pursuant to an amendment to the Mental Health Code, Public Act 290 of 1995 the Counties of Alger, Chippewa, Marquette, Delta and Luce created a Community Mental Health Authority with powers and duties as defined in Section 205, MCL 330.1205, known as Pathways to Healthy Living. Under such provisions, Pathways to Healthy Living became a separate legal entity from the counties and has its own reporting unit. The Board consists of members of the participating counties as appointed by the respective counties. The Board has full power to comply and carry out the financial and clinical provisions of the Mental Health Code. The County appropriated \$25,000 for the Authority in 2007.

The separately issued financial statements can be obtained from the administrative office of the Board at:

Pathways to Healthy Living
200 West Spring Street
Marquette, MI 49855

Multi-County Agency

The County participates jointly in the operation of the Department of Human Services Agency with thirteen other Counties in the Upper Peninsula (a component unit of Delta County). All financial operations of the Agency are recorded at the Delta County location. The County appropriated \$6,000 for the Agency in 2007.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted first, then unrestricted resources as needed.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Ambulance Fund

This fund accounts for the operation of the Luce County Ambulance.

Parks and Recreation

This fund accounts for the operation of parks and recreational programs within the County.

Coop Extension Services

This fund accounts for recreational and cultural programs.

Airport Fund

This fund accounts for the operation of the Luce County Airport.

Revenue Sharing Reserve Fund

This fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Hospital Bond – Debt Service Fund

This fund accounts for the repayments of principal and interest on Hospital Bonds.

2005 Tax Revolving

This fund accounts for the collection of 2005 delinquent taxes.

2006 Tax Revolving

This fund accounts for the collection of 2006 delinquent taxes.

Tax Revolving Reserve

This fund accounts for the collection of prior years delinquent taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the County reports the following fund types:

Special Revenue Funds

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

Debt Service Funds

The debt service fund accounts for the servicing of general long-term debt not financed by proprietary or permanent trust funds.

Capital Project Fund

The capital project fund is used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Enterprise Funds

These funds account for the County's business-type operations that provide services to residents of the County for a fee.

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Accounts Receivable – Ambulance – The accounts receivable is net of an allowance for doubtful accounts of \$126,165.

Taxes Receivable – Current or Property Taxes – The County of Luce property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Luce as of the preceding December 31st.

Although the County of Luce 2006 ad valorem tax is levied and collectible on December 1, 2006, and 2007 ad valorem tax is levied and collectible on July 1, 2007, it is the County of Luce's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made “available” for the financing of operations. “Available” means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

The December 1, 2006 taxable valuation of the County of Luce totaled \$163,374,270, on which ad valorem taxes levied consisted of 1.8409 mills for the County operating, .9674 mills for Ambulance, .4689 mills for Parks and Recreation, .4689 mills for Extension, .3903 mills for Animal Control, and .4689 mills for Airport Operating. These amounts are recognized in the respective General and Special Revenue Fund financial statements as revenue.

The July 1, 2007 taxable valuation of the County of Luce totaled \$172,257,413, on which ad valorem taxes levied consisted of 5.3715 mills for the General Fund, this amount is recognized in the General Fund.

The Revenue Sharing Reserve Fund utilized \$271,250 of the winter general fund operating levy to fund revenue sharing.

All other revenue items are considered to be available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items – Inventories are valued at cost using the first in/first out (FIFO) method. The Airport fund maintains an inventory balance for fuel. The costs of all other governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method except for road equipment which uses sum-of-the-years'-digit method. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Equipment	3 to 10 years
Furniture and Fixtures	3 to 7 years
Land Improvements	15 to 30 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Vested Benefits Payable – County General Employees - The County's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service.

The annual vacation benefits earned by each employee during the current year are credited to the employee at year end. Employees are required to use their vacation benefits within one year, except under special circumstances where, with the approval of the department head, some carry-over may be authorized.

The County's employment policies provide for sick leave benefits to be earned at the rate of one day per month. When employees separate from employment with the County, sheriff department employees are entitled to half of their accumulated sick time and government center employees are entitled to a maximum of 15 days.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each September, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through a resolution passed by the Board of Commissioners.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash, Investments, and Equivalents - Unrestricted	\$ 2,537,229	\$ 411,871	\$ 2,949,100	\$ 805,221	\$ 5,670,064
Cash, Investments, and Equivalents - Restricted	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>903,551</u>
Total	<u>\$ 2,637,229</u>	<u>\$ 411,871</u>	<u>\$ 3,049,100</u>	<u>\$ 805,221</u>	<u>\$ 6,573,615</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 2,704,314	\$ 805,221	\$ 4,971,619
Petty Cash and Cash on Hand	1,030	-	540
Investments	<u>343,756</u>	<u>-</u>	<u>1,601,456</u>
Total	<u>\$ 3,049,100</u>	<u>\$ 805,221</u>	<u>\$ 6,573,615</u>

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Investments:					
Commercial Paper	\$ 343,756	\$ 343,756	\$ -	\$ -	\$ -
Total Investments	<u>\$ 343,756</u>	<u>\$ 343,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment disclosure for the component units is available in each respective report.

Cash is restricted in the Governmental Activities in the amount of \$100,000 for payment of principal and interest on hospital bonds. Cash is restricted in the Component Units for the Helen Newberry Joy Hospital limited use.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- Repurchase agreements consisting of instruments listed in a.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the County and specific funds. They are recorded in County records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment custodial credit risk, is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$343,756 investments, \$343,756 are not in the name of the County, but in the name of the agent. Credit quality ratings of public money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$2,711,473 of the County's bank balance of \$3,112,867 was exposed to credit risk because it was uninsured and uncollateralized.

As of year end, \$1,837,291 of the County's discretely comprised component units bank balance of \$4,357,267 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,573,942	\$ -	\$ (18,518)	\$ 1,555,424
<i>Capital assets being depreciated:</i>				
Buildings	3,266,000	-	(13,912)	3,252,088
Building improvements	54,052	-	-	54,052
Equipment	750,786	46,785	-	797,571
Furniture and fixtures	29,934	-	-	29,934
Vehicles	828,434	100,492	(57,736)	871,190
Land improvements	<u>678,401</u>	<u>470,000</u>	<u>-</u>	<u>1,148,401</u>
Subtotal	<u>5,607,607</u>	<u>617,277</u>	<u>(71,648)</u>	<u>6,153,236</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(2,622,472)	(30,943)	3,710	(2,649,705)
Building improvements	(6,744)	(5,876)	-	(12,620)
Equipment	(490,773)	(94,285)	-	(585,058)
Furniture and fixtures	(29,934)	-	-	(29,934)
Vehicles	(643,030)	(76,228)	51,995	(667,263)
Land improvements	<u>(51,817)</u>	<u>(29,560)</u>	<u>-</u>	<u>(81,377)</u>
Subtotal	<u>(3,844,770)</u>	<u>(236,892)</u>	<u>55,705</u>	<u>(4,025,957)</u>
Net Capital Assets Being Depreciated	<u>1,762,837</u>	<u>380,385</u>	<u>(15,943)</u>	<u>2,127,279</u>
Governmental Activity Capital Assets - Net of Depreciation	<u>\$ 3,336,779</u>	<u>\$ 380,385</u>	<u>\$ (34,461)</u>	<u>\$ 3,682,703</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 6,453
Public Safety	34,990
Public Works	88,034
Health and Welfare	72,642
Recreation and Culture	<u>34,773</u>
Total Governmental Activities	<u>\$ 236,892</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the Luce County Road Commission for the current year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 39,182	\$ -	\$ -	\$ 39,182
Land Improvements	<u>117,709</u>	<u>-</u>	<u>-</u>	<u>117,709</u>
Subtotal	<u>156,891</u>	<u>-</u>	<u>-</u>	<u>156,891</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	38,460	-	-	38,460
Buildings	862,484	-	-	862,484
Road Equipment	4,371,909	-	-	4,371,909
Shop Equipment	234,331	-	-	234,331
Office Equipment	44,197	-	-	44,197
Engineers' Equipment	19,390	1,857	(3,952)	17,295
Infrastructure - Bridge	1,023,420	441,009	-	1,464,429
Infrastructure - Roads	<u>4,542,072</u>	<u>167,136</u>	<u>-</u>	<u>4,709,208</u>
Subtotal	<u>11,136,263</u>	<u>610,002</u>	<u>(3,952)</u>	<u>11,742,313</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(15,859)	(1,281)	-	(17,140)
Buildings	(325,285)	(29,168)	-	(354,453)
Road Equipment	(4,059,079)	(134,934)	-	(4,194,013)
Shop Equipment	(197,553)	(7,943)	-	(205,496)
Office Equipment	(41,441)	(1,329)	-	(42,770)
Engineers' Equipment	(19,390)	(186)	3,952	(15,624)
Infrastructure - Bridges	(51,949)	(15,605)	-	(67,554)
Infrastructure - Roads	<u>(873,975)</u>	<u>(258,459)</u>	<u>-</u>	<u>(1,132,434)</u>
Subtotal	<u>(5,584,531)</u>	<u>(448,905)</u>	<u>3,952</u>	<u>(6,029,484)</u>
Net Capital Assets Being Depreciated	<u>5,551,732</u>	<u>161,097</u>	<u>-</u>	<u>5,712,829</u>
Total Net Capital Assets	<u>\$ 5,708,623</u>	<u>\$ 161,097</u>	<u>\$ -</u>	<u>\$ 5,869,720</u>

Depreciation expense was charged to the following programs:

Public Works:	
Net Equipment Expense	
Direct Equipment	\$ 134,934
Indirect Equipment	30,506
Net Administrative Expenses	
Building	8,072
Office Equipment	1,329
Infrastructure Depreciation Expense	<u>274,064</u>
Total Depreciation Expense	<u>\$ 448,905</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the Luce-Mackinac-Alger-Schoolcraft District Health Department for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Furniture and equipment	\$ 274,397	\$ 9,858	\$ -	\$ 284,255
Building improvements	<u>175,163</u>	<u>-</u>	<u>-</u>	<u>175,163</u>
Subtotal	<u>449,560</u>	<u>9,858</u>	<u>-</u>	<u>459,418</u>
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	(260,161)	(7,783)	-	(267,944)
Building improvements	<u>(65,021)</u>	<u>(11,017)</u>	<u>-</u>	<u>(76,038)</u>
Subtotal	<u>(325,182)</u>	<u>(18,800)</u>	<u>-</u>	<u>(343,982)</u>
Net Capital Assets Being Depreciated	<u>\$ 124,378</u>	<u>\$ (8,942)</u>	<u>\$ -</u>	<u>\$ 115,436</u>

Depreciation Expense:
Health and Welfare

\$ 18,800

Capital asset activity of the Economic Development Corporation for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 660,783	\$ 3,800	\$ (635,082)	\$ 29,501
Equipment	6,600	-	-	6,600
Land improvements	<u>96,500</u>	<u>15,250</u>	<u>-</u>	<u>111,750</u>
Subtotal	<u>763,883</u>	<u>19,050</u>	<u>(635,082)</u>	<u>147,851</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(107,896)	(11,473)	118,196	(1,173)
Equipment	(6,600)	-	-	(6,600)
Land improvements	<u>(36,064)</u>	<u>(6,688)</u>	<u>-</u>	<u>(42,752)</u>
Subtotal	<u>(150,560)</u>	<u>(18,161)</u>	<u>118,196</u>	<u>(50,525)</u>
Net Capital Assets Being Depreciated	<u>\$ 613,323</u>	<u>\$ 889</u>	<u>\$ (516,886)</u>	<u>\$ 97,326</u>

Depreciation Expense:
Economic Development Corporation

\$ 18,161

NOTE 4 - CAPITAL ASSETS (Continued)

Capital assets activity of the Luce County Housing Commission for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Land and improvements	\$ 42,965	\$ 71,865	\$ (1,433)	\$ 113,397
Building improvements	1,759,030	-	(960)	1,758,070
Equipment	<u>74,166</u>	<u>43,265</u>	<u>(30,215)</u>	<u>87,216</u>
Subtotal	1,876,161	115,130	(32,608)	1,958,683
<i>Less accumulated depreciation:</i>				
Accumulated depreciation	<u>(1,335,266)</u>	<u>(63,635)</u>	<u>32,608</u>	<u>(1,366,293)</u>
Net capital assets being depreciated	<u>\$ 540,895</u>	<u>\$ 51,495</u>	<u>\$ -</u>	<u>\$ 592,390</u>
Depreciation Expense:				
Public Housing			<u>\$ 63,635</u>	

Capital assets activity of the Helen Newberry Joy Hospital for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Retirements</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Land improvements	\$ 467,736	\$ -	\$ (22,370)	\$ 445,366
Building	11,185,581	130,840	(114,028)	11,202,393
Equipment	<u>9,626,282</u>	<u>502,595</u>	<u>(1,381,709)</u>	<u>8,747,168</u>
Total	<u>21,279,599</u>	<u>633,435</u>	<u>(1,518,107)</u>	<u>20,394,927</u>
<i>Less accumulated depreciation:</i>				
Land improvements	(73,099)	(9,637)	22,370	(60,366)
Building	(4,695,211)	(502,679)	114,028	(5,083,862)
Equipment	<u>(7,102,038)</u>	<u>(729,024)</u>	<u>1,381,709</u>	<u>(6,449,353)</u>
Total accumulated depreciation	<u>(11,870,348)</u>	<u>(1,241,340)</u>	<u>1,518,107</u>	<u>(11,593,581)</u>
Net capital assets being depreciated	<u>\$ 9,409,251</u>	<u>\$ (607,905)</u>	<u>\$ -</u>	<u>\$ 8,801,346</u>
Depreciation Expense:				
Health and Welfare			<u>\$ 1,241,340</u>	

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Luce reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

		DUE TO OTHER FUNDS		
DUE FROM OTHER FUNDS		General Fund	Nonmajor Governmental	Totals
	Nonmajor Enterprise	\$ 3,708	\$ -	\$ 3,708
	2006 Tax Revolving	397	-	397
	Nonmajor Governmental	<u>41,979</u>	<u>2,599</u>	<u>44,578</u>
	Total	<u>\$ 46,084</u>	<u>\$ 2,599</u>	<u>\$ 48,683</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		TRANSFERS OUT							
TRANSFERS IN		General Fund	Ambulance	Revenue Sharing Reserve	Hospital Bond	Tax Revolving Reserve	Nonmajor Governmental	Nonmajor Enterprise	Total
	General Fund	\$ -	\$ -	\$ 119,579	\$ 203,755	\$ -	\$ -	\$ 238	\$ 323,572
	Nonmajor- Government	62,905	67,343	-	-	2,137	9,583	-	141,968
	Nonmajor Enterprise	<u>7,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,902</u>
	Total	<u>\$ 70,807</u>	<u>\$ 67,343</u>	<u>\$ 119,579</u>	<u>\$ 203,755</u>	<u>\$ 2,137</u>	<u>\$ 9,583</u>	<u>\$ 238</u>	<u>\$ 473,442</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LEASES

Capital Leases – The County leases vehicles and other equipment under capital leases with yearly lease payments ranging from \$804 to \$5,962 including interest rates ranging from 5.9% to 10.8%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The following is a schedule, by year, of future minimum payments required under the leases, together with their present value as of December 31, 2007:

2008	\$	7,808
2009		<u>6,993</u>
Total minimum lease payments		14,801
Less: Amount representing interest		<u>(1,807)</u>
Present value of minimum lease payments	\$	<u>12,994</u>
Interest expense was charged to the following programs:		
Governmental Activities:		
Public Safety	\$	710
Recreation and Culture		<u>1,640</u>
Total Governmental Activities	\$	<u>2,350</u>

The District Health Department currently leases space for four units under signed, noncancelable, lease agreements.

Future annual obligations of the four leases are summarized below:

Year	Premises			
	St. Ignace Mackinac County	Newberry Luce County	Munising Alger County	Manistique Schoolcraft County
2008	\$ 27,219	\$ 91,200	\$ 61,440	\$ 13,037
2009	27,219	91,200	61,440	-
2010	27,219	91,200	61,440	-
2011	24,950	60,800	61,440	-
2012	-	-	61,440	-
2013-2015	-	-	184,320	-
	This lease ends Aug. 2011	This lease ends May 2011	This lease ends Sept. 2015	This lease ends Dec. 2007

NOTE 6 - LEASES (Continued)

The Hospital is obligated under certain operating leases, primarily medical and equipment. Total rent expense under leases was \$396,193 for the year ended December 31, 2007.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

<u>Years Ending December 31</u>	<u>Amount</u>
2008	\$ 342,192
2009	335,545
2010	<u>139,340</u>
Total	<u>\$ 817,077</u>

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:							
Indirect County Obligations:							
Act 185 Bonds for DPW							
Sewer No. 1	5%	2016	\$ 313,000	\$ -	\$ 31,000	\$ 282,000	\$ 31,000
Installment Loans:							
Parks & Recreation	5%	2011	39,555	-	7,610	31,945	7,884
Series 2002-B, Limited Tax, Capital Improvement Bonds	4.45%	2009	<u>195,000</u>	<u>-</u>	<u>60,000</u>	<u>135,000</u>	<u>65,000</u>
Total Governmental Activities			<u>\$ 547,555</u>	<u>\$ -</u>	<u>\$ 98,610</u>	<u>\$ 448,945</u>	<u>\$ 103,884</u>

Interest expense was charged to the following programs:

Governmental Activities:	
Public Works	\$ 14,875
Health and Welfare	7,343
Recreation and Culture	<u>1,973</u>
Total Governmental Activities	<u>\$ 24,191</u>

NOTE 7 - LONG-TERM DEBT (Continued)

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:							
Limited Tax Notes*							
Series 2006	Variable	2007	\$ 246,669	\$ -	\$ 164,408	\$ 82,261	\$ 82,261
Series 2007	Variable	2008	-	375,000	171,938	203,062	203,062
Total Business-Type Activities			<u>\$ 246,669</u>	<u>\$ 375,000</u>	<u>\$ 336,346</u>	<u>\$ 285,323</u>	<u>\$ 285,323</u>

*Interest payments vary according to payment dates and interest rates. Because payment dates have not been prescheduled and interest is variable, outstanding interest is not determinable at this time.

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 103,884	\$ 21,032
2009	109,278	16,195
2010	39,692	11,116
2011	38,091	9,131
2012	31,000	7,125
2013-2016	<u>127,000</u>	<u>12,775</u>
Total	<u>\$ 448,945</u>	<u>\$ 77,374</u>

Other Information on Long-Term Debt

The General Obligation Tax Notes are issued to finance the Delinquent Tax Revolving Funds for the purchase of delinquent real property taxes in accordance with the provisions of Sections 211.87b, 211.87c, and 211.87d of the 1979 Compiled Laws, as amended. The assets of the respective 100 percent Tax Payment Funds are pledged for the payment of principal and interest on these notes.

The County has irrevocably pledged its full faith and credit as collateral for the DPW Sewer No. 1 bonds issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance sewage system construction projects which are administered by the County of Luce Department of Public Works for local municipalities. Payments by the Village of Newberry, McMillan and Pentland Townships, to the County, in accordance with contractual agreements, provide the money required to meet the principal and interest on these bonds.

NOTE 7 - LONG-TERM DEBT (Continued)

The County has irrevocably pledged its full faith and credit as collateral for the County of Luce Building Authority Bonds, Series 1978 issued in accordance with the provisions of Public Act 31, of 1948, as amended, for the purpose of construction of the Senior Citizens Housing Facility for the Luce County Housing Commission. The Luce County Housing Commission leases the property from the Luce County Building Authority for the period which is the lesser of fifty years or until the present value of the minimum lease payments are paid.

The County has irrevocably pledged its full faith and credit as collateral for the County of Luce Building Authority Bonds, Series 1997 issued in accordance with the provisions of Public Act 31 of 1948, as amended, for the purpose of renovation of the Helen Newberry, Joy Hospital.

Compensated Absences

Under existing union contracts and County policies, all regular full-time employees are eligible for paid leave based on length of service. Accrued vacation benefits are earned in varying amounts depending on the number of years of service up to a maximum number of days depending on the department. Sick leave, which is applicable only to union employees, may be accumulated up to 90 days. Upon termination, up to 50% of the unused sick leave up to a maximum of 45 days may be paid. Current portions of accumulated sick and vacation pay are not material.

A summary of vested benefits payable at December 31, 2007 is as follows:

	<u>01/01/07</u>	<u>Additions</u>	<u>12/31/07</u>
Vacation	\$ 29,520	\$ 1,581	\$ 31,101
Sick	<u>48,580</u>	<u>1,233</u>	<u>49,813</u>
Total	<u>\$ 78,100</u>	<u>\$ 2,814</u>	<u>\$ 80,914</u>

ROAD COMMISSION

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Balances 01/01/07</u>	<u>Additions (Reductions)</u>	<u>Balances 12/31/07</u>
Vested Employee Benefits Payable			
Vacation Benefits	\$ 70,274	\$ (1,650)	\$ 68,624
Sick Leave Benefits	<u>148,894</u>	<u>(16,835)</u>	<u>132,059</u>
Total	<u>\$ 219,168</u>	<u>\$ (18,485)</u>	<u>\$ 200,683</u>

NOTE 7 - LONG-TERM DEBT (Continued)Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue on a biweekly pay period basis thereafter. Employees may accumulate up to a maximum of 2 years vacation benefits.

Sick Leave Benefits

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Employees hired prior to July 1, 1981, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 100% of any accumulated unused sick leave up to a maximum of 160 days.

Employees hired after July 1, 1981 will receive payment for ½ of their unused accumulated sick leave up to a maximum of 60 days, upon retirement only.

HEALTH DEPARTMENT

The District Health Department has an accrued liability for accumulated vested vacation benefits payable and a contingent liability for accumulated sick leave benefits of its employees. As of September 30, 2007, the accumulated vacation and sick leave benefits were as follows:

	Account Balance 10/01/06	Additions	Deletions	Account Balance 09/30/07
Vacation	\$ 168,526	\$ 911	\$ -	\$ 169,437
Sick	<u>98,426</u>	<u>-</u>	<u>(18,554)</u>	<u>79,872</u>
TOTAL	<u>\$ 266,952</u>	<u>\$ 911</u>	<u>\$ (18,554)</u>	<u>\$ 249,309</u>

Vacation and Sick Leave Policy - Vacations are earned in varying amounts depending on the number of years of service and may be accumulated up to a maximum of 30 days.

Sick leave is paid at fifty percent of the employee's unused sick leave, up to a maximum of 480 hours, upon retirement, separation, or death after ten years of service. Payment shall be made at the employee's current rate of pay.

NOTE 7 - LONG-TERM DEBT (Continued)

LUCE COUNTY HOUSING COMMISSION

During the year ended December 31, 2007, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$ 245,000	\$ -	\$ (125,000)	\$ 120,000	\$ 30,000
Vested sick pay	<u>9,523</u>	<u>921</u>	<u>(1,340)</u>	<u>9,104</u>	<u>5,511</u>
Totals	<u>\$ 254,523</u>	<u>\$ 921</u>	<u>\$ (126,340)</u>	<u>\$ 129,104</u>	<u>\$ 35,511</u>

Long-term obligations at December 31, 2007 are comprised of the following amounts:

1.	2002 Rehabilitation Bonds due in annual installments of \$5,000 to \$50,000 through July 1, 2010 with interest at 4.45%	\$ 120,000
2.	Vested sick pay	<u>9,104</u>
	Total long-term obligations	<u>\$ 129,104</u>

The annual requirements to amortize long-term obligations outstanding as of December 31, 2007 are as follows:

<u>Year Ended December 31</u>	<u>Bond Issues</u>		<u>Vested Sick Pay</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2008	\$ 30,000	\$ 5,340	\$ -	\$ 35,340
2009	40,000	4,006	5,511	49,517
2010	<u>50,000</u>	<u>2,224</u>	<u>3,593</u>	<u>55,817</u>
Total	<u>\$ 120,000</u>	<u>\$ 11,570</u>	<u>\$ 9,104</u>	<u>\$ 140,674</u>

Interest charged to expenses totaled \$11,570.

NOTE 7 - LONG-TERM DEBT (Continued)

HELEN NEWBERRY JOY HOSPITAL

Long-term liability activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Current Year Additions</u>	<u>Current Year Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Long-term debt payable:					
Series 2001A	\$ 4,921,247	\$ -	\$ (208,012)	\$ 4,713,235	\$ 218,245
Series 2001B	69,993	-	(69,993)	-	-
Equipment note	<u>720,116</u>	<u>-</u>	<u>(254,158)</u>	<u>465,958</u>	<u>258,175</u>
Total long-term debt	<u>\$ 5,711,356</u>	<u>\$ -</u>	<u>\$ (532,163)</u>	<u>\$ 5,179,193</u>	<u>\$ 476,420</u>

The bonds payable are summarized as follows:

- Revenue bonds payable to a financial institution, Healthcare Facilities Series 2001A Bond Agreement, with monthly payment ranging from \$18,250 to \$39,700 plus interest, with a portion fixed at a rate of 5.61 percent and a portion variable that was 5.44 percent at December 31, 2007. These bonds are collateralized by substantially all assets of the Hospital.
- Note payable to a financial institution, related to acquisition of equipment, with monthly payments ranging from \$21,250 to \$22,700, plus interest at 4.2 percent. The note payable is collateralized by substantially all assets of the Hospital.

The following is a schedule by years of principal and interest as of December 31, 2007:

<u>Years Ending December 31</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2008	476,420	276,094
2009	438,590	252,422
2010	244,094	234,755
2011	258,148	220,705
2012	273,007	205,844
2013-2017	1,619,655	774,595
2018-2022	<u>1,869,279</u>	<u>254,382</u>
Total payments	<u>\$ 5,179,193</u>	<u>\$ 2,218,797</u>

NOTE 8 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The County joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its vehicle, property, and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

NOTE 9 - CONTINGENT LIABILITIES

The County and component units have received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the County at December 31, 2007.

LMAS District Health Department:

Medicare - District Health services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. Certain District Health services are paid based on a cost reimbursement methodology. The Health Department reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary. The Health Department's classification of clients under the Medicare program and the appropriateness of their admission and visits are subject to a review by Medicare.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

GENERAL GOVERNMENT AND HOUSING

Description of Plan and Plan Assets - The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2006.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2006 is as follows:

General	21.40%
Housing Commission	20.61%

Annual Pension Cost - During the year ended December 31, 2007, the County's contributions totaling \$242,780 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31 follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 2,131,543	\$ 2,296,859	\$ 2,576,817
Actuarial Accrued Liability	3,343,489	4,275,499	4,742,848
Unfunded AAL	1,211,946	1,978,640	2,166,031
Funded Ratio	64%	54%	54%
Covered Payroll	991,194	974,952	980,921
UAAL as a Percentage of Covered Payroll	122%	203%	221%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 154,284	100%	\$ 0
2006	201,046	100%	0
2007	242,780	100%	0

ROAD COMMISSION

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Luce County Road Commission is in an agent multiple-employer defined benefit pension plan with the Michigan Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. For all groups, the service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road commission is required to contribute at actuarially determined rates; the current rates for the general, engineer/manager, management, and employees hired after September 1998 are 31.83%, 18.56%, 20.43% and 12.63%, respectively, at December 31, 2006.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Costs – For the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$229,871 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases

Three year trend information as of December 31 follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 4,013,444	\$ 4,120,682	\$ 4,333,860
Actuarial Accrued Liability	6,331,712	6,728,902	7,297,269
Unfunded AAL	2,318,268	2,608,220	2,963,409
Funded Ratio	63%	61%	59%
Covered Payroll	860,551	840,471	883,805
UAAL as a Percentage of Covered Payroll	269%	310%	335%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 172,847	100%	\$ 0
2005	192,468	100%	0
2006	229,871	100%	0

LMAS DISTRICT HEALTH DEPARTMENT

Plan Description - The LMAS District Health Department contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

All full-time employees of the LMAS District Health Department are eligible to participate in the System. Benefits vest after six years of service. LMAS employees listed after February 1997 who retire at or after age 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.7 percent times the member's 5 year final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and County ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the District Health Department's personnel policy, which requires employees to contribute -0- percent to the plan. The District Health Department is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2006 is as follows:

General	.66%
Employee 2/97	7.32%

Annual Pension Cost – During the year ended September 30, 2007, the District Health Department's contributions totaling \$164,138 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31 is as follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 6,387,158	\$ 6,716,767	\$ 7,188,329
Actuarial Accrued Liability	6,004,879	6,547,577	6,919,783
Unfunded AAL	(382,279)	(169,190)	(268,546)
Funded Ratio	106%	103%	104%
Covered Payroll	2,481,348	2,705,760	2,926,587
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 125,648	100%	\$ 0
2006	173,810	100%	0
2007	164,138	100%	0

HELEN NEWBERRY JOY HOSPITAL

Plan Description – The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees Retirement System (MMERS), and agent multiple-employer defined benefit pension plan that covers qualifying full-time employees of the Hospital who did not migrate to the defined contribution plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing Michigan, 48917.

Funding Policy – Benefit provisions of the MMERS, and employer and employee obligations to contribute, are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period.

Annual Pension Cost – The Hospital's contributions to the plan amounted to \$331,706, \$330,486, and \$331,457 in 2007, 2006 and 2005, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2006.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31 is as follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 9,669,849	\$ 10,196,660	\$ 10,990,859
Actuarial Accrued Liability (entry age)	11,483,243	12,066,198	12,914,301
Unfunded Actuarial Accrued Liability (UAAL)	1,813,394	1,869,538	1,923,442
Funded Ratio	84%	85%	85%
Covered Payroll	2,984,024	2,883,499	2,628,793
UAAL as a Percentage of Covered Payroll	61%	65%	73%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 331,457	100%	\$ 0
2006	330,486	100%	0
2007	331,706	100%	0

Defined Contribution Plan – The Hospital sponsors a defined contribution plan covering all employees hired after June 1, 2001, and all other employees who elected to change from the defined benefit plan. Participating employees in this plan must contribute 2 percent of their gross earnings and the Hospital contributes 7 percent of gross earning for participants. The Hospital's contribution totaled \$552,445 for the year ended December 31, 2007.

NOTE 11 - FUND BALANCE/RETAINED EARNINGS

Reservations

Fund Balance reservations are summarized as follows:

Special Revenue Funds

Revenue Sharing Reserve – reserved for funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

\$ 395,866

Total Special Revenue Funds

\$ 395,866

NOTE 11 - FUND BALANCE/RETAINED EARNINGS (Continued)

Debt Service Funds

Hospital Bond Debt Service – reserved for payment of principal and interest on hospital bonds	\$ 301,984
Total Debt Service Funds	\$ 301,984

Designations

Fund balance designations, all of which are designations for subsequent years' expenditures, are summarized as follows:

Capital Project Funds

Crisp Point Lighthouse	\$ 12,946
Total Capital Project Funds	\$ 12,946

NOTE 12 - INTERLOCAL AGREEMENT – REVOLVING LOAN FUND

The Luce County EDC and McMillan Township are parties to an interlocal agreement to administer a revolving loan fund and grant program. The loans (or grants) are issued to qualified local businesses to promote economic development in the Luce County area. McMillan Township pays the Luce County EDC an annual fee to handle the administrative duties of the revolving loan fund such as loan processing, maintaining loan files, and payment processing. The agreement provides that all grant or loan applications must be presented to the EDC Board for review with final approval by both the EDC and Township Boards. The agreement also allows either board to approve a loan rejected by the other, provided there are sufficient funds in that government's control to finance the entire project.

Pursuant to this agreement, the cash and loan balances are jointly held by the EDC and the Township. The balances are considered "reuse" monies according to the terms of the original grant agreements from the U.S. Department of Commerce which are now fully closed out. A summary of the activity of the revolving loan fund for the year ended December 31, 2007 is as follows:

Balance, January 1	\$ 1,412,326
Loans granted during period	191,445
Less: Repayments	<u>(84,610)</u>
Subtotal	1,519,161
Less: allowance for loan losses	<u>(167,108)</u>
Balance, December 31	\$ <u>1,352,053</u>

NOTE 13 - POST EMPLOYMENT BENEFITS

Component Unit – Road Commission

In addition to the pension described in Note 10, the Luce County Road Commission provides post-employment health care and cancer insurance benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with Article 34 (a), (b), and (c) of the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For employees hired prior to September 1, 1998, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the Employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse.

For all employees hired after September 1, 1998, the Road Commission agrees to pay 4% of the premium for each employee at time of retirement for each year of service said employee has spent with the Road Commission. Said employee may elect to have coverage provided to his spouse at the employee's expense.

In order for an employee to be eligible to health care benefits at retirement, the employee must retire from active service with the Road Commission at age 60 with 10 years of service or at age 55 with 25 years of service.

During 2007, the Road Commission amended its post-employment benefit plan by providing a lump sum payment to each retiree upon attainment of age 65. Twenty two retirees qualified for this benefit amounting to \$77,965. Additionally, 9 retirees and/or spouses continue to be eligible for continuing benefits between the ages of 55 and 65 at a cost of \$92,316. Total cost of benefits provided for retirees was \$170,821. The Road Commission's policy is to finance these benefits on a pay-as-you go basis.

NOTE 14 - DEFICIT FUND EQUITY BALANCES:

A fund equity deficit existed in the following fund as indicated:

Juvenile Justice	\$	(1,045)
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The County plans to recover these deficits with transfers from governmental funds.

Required Supplementary Information

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,191,883	\$ 1,330,023	\$ 1,243,592	\$ (86,431)
Licenses & Permits	12,510	10,790	10,791	1
Federal Sources	-	39,000	165,608	126,608
State Sources	203,043	223,012	96,404	(126,608)
Local Sources	20,323	19,543	19,543	-
Charges for Services	208,685	183,617	183,617	-
Interest & Rentals	43,682	82,967	82,967	-
Fines & Forfeitures	5,735	5,978	5,978	-
Other Revenue	113,325	119,054	119,377	323
TOTAL REVENUES	1,799,186	2,013,984	1,927,877	(86,107)
EXPENDITURES:				
Legislative:				
Board of Commissioners	60,021	75,724	75,723	1
Judicial:				
Circuit Court	119,408	126,148	126,149	(1)
District Court	186,794	197,503	197,503	-
Friend of the Court	118,938	127,423	127,424	(1)
Jury Commission	2,338	2,053	2,052	1
Probate Court	66,010	74,257	74,256	1
Court Appointed Appellate Attorney	45,500	46,650	46,649	1
Total Judicial	538,988	574,034	574,033	1
General Government:				
Elections	2,186	5,040	5,040	-
Clerk/Register of Deeds	183,431	192,403	192,403	-
Equalization	98,690	92,176	92,176	-
Prosecuting Attorney	84,971	105,594	105,593	1
Treasurer	94,123	94,006	94,006	-
Computer	19,900	12,515	12,515	-
Buildings & Grounds	124,897	125,840	125,840	-
Record Copying	1,800	3,774	3,774	-
Total General Government	609,998	631,348	631,347	1

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	138,510	178,783	178,782	1
Liquor Law Enforcement	3,194	3,184	3,184	-
Zoning Commission	33,291	44,271	44,271	-
Jail	195,458	263,577	263,577	-
Building/Housing Commission	2,300	2,424	2,424	-
Total Public Safety	372,753	492,239	492,238	1
Health & Welfare:				
Medical Examiner	10,269	11,194	11,194	-
Total Health & Welfare	10,269	11,194	11,194	-
Other Expenditures:				
Appropriations	87,854	82,844	82,844	-
Employee Benefits	2,800	2,670	2,670	-
Audit	33,000	32,177	32,177	-
Insurance & Bonds	54,914	72,020	72,020	-
Postage	3,730	3,827	3,827	-
Veterans Burials	2,400	2,400	2,400	-
Total Other Expenditures	184,698	195,938	195,938	-
TOTAL EXPENDITURES	1,776,727	1,980,477	1,980,473	4
EXCESS OF REVENUES OVER EXPENDITURES	22,459	33,507	(52,596)	(86,103)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	323,334	323,572	323,572	-
Operating Transfers Out	(69,632)	(70,807)	(70,807)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 276,161	\$ 286,272	200,169	\$ (86,103)
FUND BALANCE, JANUARY 1			680,796	
FUND BALANCE, DECEMBER 31			\$ 880,965	

**Required Supplementary Information
Budgetary Comparison Schedule
Ambulance Fund
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 159,461	\$ 161,673	\$ 161,673	\$ -
Local Sources	6,480	6,469	6,469	-
Charges for Services	280,837	373,890	201,987	(171,903)
Interest & Rentals	12,310	19,351	19,351	-
Other Revenue	1,000	3,080	3,080	-
TOTAL REVENUES	460,088	564,463	392,560	(171,903)
EXPENDITURES:				
Health and Welfare	306,089	328,492	328,491	1
Capital Outlay	10,866	10,866	10,866	-
TOTAL EXPENDITURES	316,955	339,358	339,357	1
EXCESS OF REVENUES OVER EXPENDITURES	143,133	225,105	53,203	(171,902)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(67,343)	(67,343)	(67,343)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 75,790	\$ 157,762	(14,140)	\$ (171,902)
FUND BALANCE, JANUARY 1			724,466	
FUND BALANCE, DECEMBER 31			\$ 710,326	

**Required Supplementary Information
Budgetary Comparison Schedule
Parks and Recreation
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 77,299	\$ 78,349	\$ 78,349	\$ -
Local Sources	3,141	3,136	3,136	-
Charges for Services	7,500	6,948	6,948	-
Interest & Rentals	2,500	1,432	1,432	-
Other Revenue	-	670	670	-
TOTAL REVENUES	90,440	90,535	90,535	-
EXPENDITURES:				
Recreation and Culture	90,440	79,490	79,490	-
TOTAL EXPENDITURES	90,440	79,490	79,490	-
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 11,045</u>	11,045	<u>\$ -</u>
FUND BALANCE, JANUARY 1			14,761	
FUND BALANCE, DECEMBER 31			<u>\$ 25,806</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Coop Extension Service
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 77,299	\$ 78,349	\$ 78,349	\$ -
State Sources	10,000	6,910	6,910	-
Local Sources	3,141	3,136	3,136	-
Interest & Rentals	2,500	1,282	1,282	-
 TOTAL REVENUES	 92,940	 89,677	 89,677	 -
EXPENDITURES:				
Recreation and Culture	92,940	96,548	96,548	-
 TOTAL EXPENDITURES	 92,940	 96,548	 96,548	 -
 EXCESS OF REVENUES OVER EXPENDITURES	 \$ -	 \$ (6,871)	 (6,871)	 \$ -
 FUND BALANCE, JANUARY 1			16,138	
 FUND BALANCE, DECEMBER 31			<u>\$ 9,267</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	\$ (119,579)	\$ (119,579)	\$ (119,579)	\$ -
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (119,579)</u>	<u>\$ (119,579)</u>	(119,579)	<u>\$ -</u>
FUND BALANCE, JANUARY 1			<u>515,445</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 395,866</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Airport Fund
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 77,299	\$ 78,349	\$ 78,349	\$ -
Federal Sources	-	-	376,000	376,000
State Sources	-	-	82,250	82,250
Local Sources	3,141	3,136	3,135	(1)
Charges for Services	46,000	52,820	52,820	-
Interest & Rentals	4,775	3,570	3,570	-
Other Revenue	550	8,075	8,076	1
TOTAL REVENUES	131,765	145,950	604,200	458,250
EXPENDITURES:				
Public Works	122,010	169,371	144,347	25,024
Capital Outlay	-	-	470,000	(470,000)
TOTAL EXPENDITURES	122,010	169,371	614,347	(444,976)
EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	\$ 9,755	\$ (23,421)	(10,147)	\$ 13,274
FUND BALANCE, JANUARY 1			25,180	
FUND BALANCE, DECEMBER 31			\$ 15,033	

Other Supplementary Information

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Family Counseling	ORV Enforcement Grant	Snowmobile Enforcement Grant	Marine Safety Grant	Luce County Park & Campground	Friend of the Court	Tax Revolving Admin	Animal Control	Luce County Master Plan
ASSETS:									
Cash & Investments - Unrestricted	\$ 1,139	\$ 3,723	\$ 1,227	\$ -	\$ 20,887	\$ 29,076	\$ 6,569	\$ 28,549	\$ 4,304
Receivables:									
Accounts	-	-	-	6,629	-	1,132	-	-	-
Taxes	-	-	-	-	-	-	-	65,741	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 1,139</u>	<u>\$ 3,723</u>	<u>\$ 1,227</u>	<u>\$ 6,629</u>	<u>\$ 20,887</u>	<u>\$ 30,208</u>	<u>\$ 6,569</u>	<u>\$ 94,290</u>	<u>\$ 4,304</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ 6,399	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	5	5	16	27	-	-	271	-
Accrued Liabilities	-	-	1,025	-	-	-	-	1,582	-
Deferred Revenue	-	-	-	-	-	-	-	65,741	-
TOTAL LIABILITIES	<u>-</u>	<u>5</u>	<u>1,030</u>	<u>6,415</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>67,594</u>	<u>-</u>
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	1,139	3,718	197	214	20,860	30,208	6,569	26,696	4,304
TOTAL FUND BALANCES	<u>1,139</u>	<u>3,718</u>	<u>197</u>	<u>214</u>	<u>20,860</u>	<u>30,208</u>	<u>6,569</u>	<u>26,696</u>	<u>4,304</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,139</u>	<u>\$ 3,723</u>	<u>\$ 1,227</u>	<u>\$ 6,629</u>	<u>\$ 20,887</u>	<u>\$ 30,208</u>	<u>\$ 6,569</u>	<u>\$ 94,290</u>	<u>\$ 4,304</u>

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Michigan Coastal Mgmt Grant	Remonu- mentation	Register of Deeds Automation	Emergency Management	Youth Alcohol Enforcement	Corrections Officers Training	911	Shooting Range Fund	Law Library
ASSETS:									
Cash & Investments - Unrestricted	\$ 4,283	\$ 3,900	\$ 14,458	\$ 9,287	\$ 1,738	\$ 2,648	\$ 230,885	\$ 262	\$ 5,603
Receivables:									
Accounts	1,875	-	-	-	-	-	27,711	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	625	-	-	27,725	-	-
TOTAL ASSETS	<u>\$ 6,158</u>	<u>\$ 3,900</u>	<u>\$ 14,458</u>	<u>\$ 9,912</u>	<u>\$ 1,738</u>	<u>\$ 2,648</u>	<u>\$ 286,321</u>	<u>\$ 262</u>	<u>\$ 5,603</u>
LIABILITIES:									
Due to Other Funds	\$ 5,625	\$ -	\$ -	\$ 2,417	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	194	1,717	-	10,178	-	-
Accrued Liabilities	-	-	-	284	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>5,625</u>	<u>-</u>	<u>-</u>	<u>2,895</u>	<u>1,717</u>	<u>-</u>	<u>10,178</u>	<u>-</u>	<u>-</u>
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	533	3,900	14,458	7,017	21	2,648	276,143	262	5,603
TOTAL FUND BALANCES	<u>533</u>	<u>3,900</u>	<u>14,458</u>	<u>7,017</u>	<u>21</u>	<u>2,648</u>	<u>276,143</u>	<u>262</u>	<u>5,603</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,158</u>	<u>\$ 3,900</u>	<u>\$ 14,458</u>	<u>\$ 9,912</u>	<u>\$ 1,738</u>	<u>\$ 2,648</u>	<u>\$ 286,321</u>	<u>\$ 262</u>	<u>\$ 5,603</u>

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Housing Grant/ Loan	Officer Training	Secondary Road Patrol	Juvenile Justice	E.U.P. Community Corrections	CDBG Housing Rehabilitation	Child Care - Probate	Veterans Trust	Drug Court
ASSETS:									
Cash & Investments - Unrestricted	\$ 62,978	\$ 1,099	\$ 3,713	\$ 423	\$ 587	\$ -	\$ 24,767	\$ 160	\$ 3,918
Receivables:									
Accounts	-	-	-	-	-	-	-	-	3,658
Taxes	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	21,097	3,755	2,648	32,493	-	-	-
TOTAL ASSETS	<u>\$ 62,978</u>	<u>\$ 1,099</u>	<u>\$ 24,810</u>	<u>\$ 4,178</u>	<u>\$ 3,235</u>	<u>\$ 32,493</u>	<u>\$ 24,767</u>	<u>\$ 160</u>	<u>\$ 7,576</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ 22,930	\$ 4,608	\$ 2,599	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	567	20	119	32,493	23,695	-	-
Accrued Liabilities	-	-	1,311	595	517	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>24,808</u>	<u>5,223</u>	<u>3,235</u>	<u>32,493</u>	<u>23,695</u>	<u>-</u>	<u>-</u>
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	62,978	1,099	2	(1,045)	-	-	1,072	160	7,576
TOTAL FUND BALANCES	<u>62,978</u>	<u>1,099</u>	<u>2</u>	<u>(1,045)</u>	<u>-</u>	<u>-</u>	<u>1,072</u>	<u>160</u>	<u>7,576</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 62,978</u>	<u>\$ 1,099</u>	<u>\$ 24,810</u>	<u>\$ 4,178</u>	<u>\$ 3,235</u>	<u>\$ 32,493</u>	<u>\$ 24,767</u>	<u>\$ 160</u>	<u>\$ 7,576</u>

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds		Debt Service Funds			Capital Project Fund	
	Drunk Driving Caseload Assist.	Substance Abuse	County Park Debt Retirement	Ambulance Building Bond Debt Service	Debt Ret.- Sewage Debt Service	Crisp Point Lighthouse Project	Totals
ASSETS:							
Cash & Investments - Unrestricted	\$ 22,080	\$ -	\$ -	\$ -	\$ -	\$ 12,946	\$ 501,209
Receivables:							
Accounts	-	-	-	-	-	-	41,005
Taxes	-	-	-	-	-	-	65,741
Due from Other Funds	-	2,599	-	-	-	-	2,599
Due from Governmental Units	-	-	-	-	-	-	88,343
TOTAL ASSETS	<u>\$ 22,080</u>	<u>\$ 2,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,946</u>	<u>\$ 698,897</u>
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,578
Accounts Payable	-	-	-	-	-	-	69,307
Accrued Liabilities	-	-	-	-	-	-	5,314
Deferred Revenue	-	-	-	-	-	-	65,741
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,940</u>
FUND BALANCES:							
Unreserved:							
Designated	-	-	-	-	-	12,946	12,946
Undesignated	22,080	2,599	-	-	-	-	501,011
TOTAL FUND BALANCES	<u>22,080</u>	<u>2,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,946</u>	<u>513,957</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 22,080</u>	<u>\$ 2,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,946</u>	<u>\$ 698,897</u>

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds								
	Family Counseling	ORV Enforcement Grant	Snowmobile Enforcement Grant	Marine Safety Grant	Luce County Park & Campground	Friend of the Court	Tax Revolving Admin	Animal Control	Luce County Master Plan
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,209	\$ -
Licenses & Permits	495	-	-	-	-	-	-	1,043	-
Federal Sources	-	-	-	26,013	-	2,215	-	-	-
State Sources	-	6,316	21,454	-	-	-	-	-	-
Local Sources	-	-	2,000	-	-	-	-	3,610	-
Charges for Services	-	-	-	260	40,022	2,162	-	8,540	-
Interest & Rentals	39	-	-	-	591	1,075	-	1,325	229
Fines and Forfeitures	-	-	-	-	-	-	-	1,562	-
Other Revenue	-	-	2,050	-	10,750	-	-	2,558	-
TOTAL REVENUES	534	6,316	25,504	26,273	51,363	5,452	-	83,847	229
EXPENDITURES:									
Judicial	-	-	-	-	-	3,077	-	-	-
General Government	-	-	-	-	-	-	1,082	-	-
Public Safety	-	6,333	30,218	5,520	-	-	-	74,552	-
Public Works	-	-	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	1,336
Recreational and Cultural	-	-	-	-	30,944	-	-	-	-
Capital Outlay	-	-	-	20,539	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	6,333	30,218	26,059	30,944	3,077	1,082	74,552	1,336
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	534	(17)	(4,714)	214	20,419	2,375	(1,082)	9,295	(1,107)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	2,137	-	-
Operating Transfers Out	-	-	-	-	(9,583)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	534	(17)	(4,714)	214	10,836	2,375	1,055	9,295	(1,107)
FUND BALANCES, JANUARY 1	605	3,735	4,911	-	10,024	27,833	5,514	17,401	5,411
FUND BALANCES, DECEMBER 31	\$ 1,139	\$ 3,718	\$ 197	\$ 214	\$ 20,860	\$ 30,208	\$ 6,569	\$ 26,696	\$ 4,304

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds								
	Michigan Coastal Mgmt Grant	Remonu- mentation	Register of Deeds Automation	Emergency Management	Youth Alcohol Enforcement	Corrections Officers Training	911	Shooting Range Fund	Law Library
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Federal Sources	5,354	-	-	4,463	12,140	-	27,725	-	-
State Sources	-	92,366	-	-	-	-	94,950	-	-
Local Sources	-	-	-	-	-	-	47,241	500	-
Charges for Services	-	-	11,989	-	-	1,400	71,100	-	-
Interest & Rentals	-	-	616	303	-	-	10,640	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	2,000
Other Revenue	10,833	-	-	1,405	-	-	1,317	-	-
TOTAL REVENUES	16,187	92,366	12,605	6,171	12,140	1,400	252,973	500	2,000
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	68
General Government	-	-	9,994	-	-	-	-	-	-
Public Safety	-	-	-	9,617	12,146	1,426	197,679	-	-
Public Works	-	106,766	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	-
Recreational and Cultural	17,529	-	-	-	-	-	-	238	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	17,529	106,766	9,994	9,617	12,146	1,426	197,679	238	68
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,342)	(14,400)	2,611	(3,446)	(6)	(26)	55,294	262	1,932
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	5,855	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,342)	(14,400)	2,611	2,409	(6)	(26)	55,294	262	1,932
FUND BALANCES, JANUARY 1	1,875	18,300	11,847	4,608	27	2,674	220,849	-	3,671
FUND BALANCES, DECEMBER 31	\$ 533	\$ 3,900	\$ 14,458	\$ 7,017	\$ 21	\$ 2,648	\$ 276,143	\$ 262	\$ 5,603

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds								
	Housing Grant/ Loan	Officer Training	Secondary Road Patrol	Juvenile Justice	E.U.P. Community Corrections	CDBG Housing Rehabilitation	Child Care - Probate	Veterans Trust	Drug Court
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Federal Sources	-	-	-	-	-	82,563	-	-	-
State Sources	-	690	38,796	10,794	13,987	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	2,791	-	-	-	-	-	2,971	-	17,967
Interest & Rentals	2,928	-	-	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-
Other Revenue	-	-	-	-	-	-	-	-	220
TOTAL REVENUES	5,719	690	38,796	10,794	13,987	82,563	2,971	-	18,187
EXPENDITURES:									
Judicial	-	-	-	14,805	-	-	-	-	15,252
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	728	38,794	-	13,987	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	58,949	332	-
Community/Economic Development	-	-	-	-	-	82,563	-	-	-
Recreational and Cultural	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	728	38,794	14,805	13,987	82,563	58,949	332	15,252
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,719	(38)	2	(4,011)	-	-	(55,978)	(332)	2,935
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	57,050	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	5,719	(38)	2	(4,011)	-	-	1,072	(332)	2,935
FUND BALANCES, JANUARY 1	57,259	1,137	-	2,966	-	-	-	492	4,641
FUND BALANCES, DECEMBER 31	\$ 62,978	\$ 1,099	\$ 2	\$ (1,045)	\$ -	\$ -	\$ 1,072	\$ 160	\$ 7,576

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds		Debt Service Funds			Capital Project Fund	
	Drunk Driving Caseload Assist.	Substance Abuse	County Park Debt Retirement	Ambulance Building Bond Debt Service	Debt Ret.- Sewage Debt Service	Crisp Point Lighthouse Project	Totals
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,209
Licenses & Permits	-	-	-	-	-	-	1,538
Federal Sources	-	-	-	-	-	-	160,473
State Sources	3,517	-	-	-	-	-	282,870
Local Sources	-	-	-	-	45,875	-	99,226
Charges for Services	-	-	-	-	-	-	159,202
Interest & Rentals	966	-	-	-	-	595	19,307
Fines and Forfeitures	-	-	-	-	-	-	3,562
Other Revenue	-	-	-	-	-	7,665	36,798
TOTAL REVENUES	4,483	-	-	-	45,875	8,260	828,185
EXPENDITURES:							
Judicial	-	-	-	-	-	-	33,202
General Government	-	-	-	-	-	-	11,076
Public Safety	-	-	-	-	-	-	391,000
Public Works	-	-	-	-	-	-	106,766
Health and Welfare	-	-	-	-	-	-	59,281
Community/Economic Development	-	-	-	-	-	-	83,899
Recreational and Cultural	-	-	-	-	-	-	48,711
Capital Outlay	-	-	-	-	-	19,050	39,589
Debt Service	-	-	9,583	67,343	45,875	-	122,801
TOTAL EXPENDITURES	-	-	9,583	67,343	45,875	19,050	896,325
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,483	-	(9,583)	(67,343)	-	(10,790)	(68,140)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	-	9,583	67,343	-	-	141,968
Operating Transfers Out	-	-	-	-	-	-	(9,583)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	4,483	-	-	-	-	(10,790)	64,245
FUND BALANCES, JANUARY 1	17,597	2,599	-	-	-	23,736	449,712
FUND BALANCES, DECEMBER 31	\$ 22,080	\$ 2,599	\$ -	\$ -	\$ -	\$ 12,946	\$ 513,957

County of Luce, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2007

	2002 Tax Revolving	2003 Tax Revolving	2004 Tax Revolving	Building Department	Abstract	Fair Board	Totals
ASSETS:							
Cash & Investments - Unrestricted	\$ 53,019	\$ 66,052	\$ 61,381	\$ 1,176	\$ -	\$ -	\$ 181,628
Taxes Receivable	761	1,025	293	-	-	-	2,079
Accrued Interest	-	-	110	-	-	-	110
TOTAL ASSETS	<u><u>\$ 53,780</u></u>	<u><u>\$ 67,077</u></u>	<u><u>\$ 61,784</u></u>	<u><u>\$ 1,176</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,817</u></u>
LIABILITIES:							
Due to Other Funds	\$ 1,204	\$ 1,218	\$ 1,286	\$ -	\$ -	\$ -	\$ 3,708
Accounts Payable	-	-	-	131	-	-	131
Accrued Liabilities	-	-	-	1,045	-	-	1,045
TOTAL LIABILITIES	<u>1,204</u>	<u>1,218</u>	<u>1,286</u>	<u>1,176</u>	<u>-</u>	<u>-</u>	<u>4,884</u>
NET ASSETS:							
Unrestricted	<u>52,576</u>	<u>65,859</u>	<u>60,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,933</u>
TOTAL NET ASSETS	<u>52,576</u>	<u>65,859</u>	<u>60,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,933</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 53,780</u></u>	<u><u>\$ 67,077</u></u>	<u><u>\$ 61,784</u></u>	<u><u>\$ 1,176</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,817</u></u>

County of Luce, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds For the Year Ended December 31, 2007

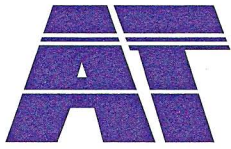
	2002 Tax Revolving	2003 Tax Revolving	2004 Tax Revolving	Building Department	Abstract	Fair Board	Totals
OPERATING REVENUES:							
Charges for Services	\$ -	\$ 109	\$ 1,570	32,825	\$ 1,291	\$ -	\$ 35,795
Interest & Rentals	-	-	884	-	-	-	884
TOTAL OPERATING REVENUES	-	109	2,454	32,825	1,291	-	36,679
OPERATING EXPENSES:				-			
Personal Services	-	-	-	40,610	1,060	876	42,546
Utilities	-	-	-	765	-	-	765
Other Supplies & Expenses	285	384	-	1,991	-	-	2,660
TOTAL OPERATING EXPENSES	285	384	-	43,366	1,060	876	45,971
OPERATING INCOME (LOSS)	(285)	(275)	2,454	(10,541)	231	(876)	(9,292)
NON-OPERATING REVENUES (EXPENSES):							
Interest on Deposits	1,131	1,408	1,156	185	7	-	3,887
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,131	1,408	1,156	185	7	-	3,887
INCOME (LOSS) BEFORE TRANSFERS	846	1,133	3,610	(10,356)	238	(876)	(5,405)
Operating Transfers In	-	-	-	7,902	-	-	7,902
Operating Transfers Out	-	-	-	-	(238)	-	(238)
CHANGES IN NET ASSETS	846	1,133	3,610	(2,454)	-	(876)	2,259
NET ASSETS, JANUARY 1	51,730	64,726	56,888	2,454	-	876	176,674
NET ASSETS, DECEMBER 31	\$ 52,576	\$ 65,859	\$ 60,498	\$ -	\$ -	\$ -	\$ 178,933

County of Luce, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended December 31, 2007

	2002 Tax Revolving	2003 Tax Revolving	2004 Tax Revolving	Building Department	Abstract	Fair Board	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ -	\$ 1,148	\$ 39,101	\$ 32,825	\$ 1,291	\$ -	\$ 74,365
Payments to Suppliers	-	(384)	-	(18,718)	(168)	(876)	(20,146)
Payments to Employees	-	-	-	(26,723)	(960)	-	(27,683)
Net Cash Provided (Used) by Operating Activities	-	764	39,101	(12,616)	163	(876)	26,536
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Operating Transfers In	-	-	-	7,902	-	-	7,902
Operating Transfers Out	-	-	-	-	(238)	-	(238)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	-	-	7,902	(238)	-	7,664
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Earnings	1,131	1,408	1,156	185	7	-	3,887
Net Cash Provided (Used) by Investing Activities	1,131	1,408	1,156	185	7	-	3,887
Net Increase (Decrease) in Cash and Equivalents	1,131	2,172	40,257	(4,529)	(68)	(876)	38,087
Balances - Beginning of the Year	51,888	63,880	21,124	5,705	68	876	143,541
Balances - End of the Year	<u>\$ 53,019</u>	<u>\$ 66,052</u>	<u>\$ 61,381</u>	<u>\$ 1,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,628</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ (285)	\$ (275)	\$ 2,454	\$ (10,541)	\$ 231	\$ (876)	\$ (9,292)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Change in Assets and Liabilities:							
Taxes Receivable	-	476	27,564	-	-	-	28,040
Accrued Interest Receivable	285	563	9,083	-	-	-	9,931
Accounts Payable	-	-	-	(2)	(31)	-	(33)
Due to Other Funds	-	-	-	(2,781)	(37)	-	(2,818)
Accrued Liabilities	-	-	-	708	-	-	708
Net Cash Provided (Used) by Operating Activities	<u>\$ -</u>	<u>\$ 764</u>	<u>\$ 39,101</u>	<u>\$ (12,616)</u>	<u>\$ 163</u>	<u>\$ (876)</u>	<u>\$ 26,536</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and
Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Luce, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the County of Luce, Michigan's basic financial statements and have issued our report thereon, dated June 15, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Helen Newberry Joy Hospital and Luce County Road Commission discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying summary schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 07-1, 99-1, and 98-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 07-2, 07-3, and 07-4.

We noted certain matters that we reported to management of the County of Luce, Michigan in a separate letter dated June 15, 2008.

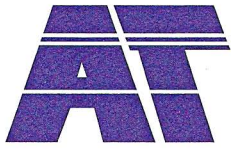
The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and summary schedule of prior audit findings. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Chairman and
Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

Compliance

We have audited the compliance of the County of Luce, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Luce County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in a County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2008

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Awards:			
Equipment Grant	10.766	N/A	\$ 39,000
Pass-through from the State of Michigan			
Department of Community Health: (to LMAS District Health Dept.) Women, Infants and Children	10.557	XX4W1006	137,155
Total U.S. Department of Agriculture			176,155
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Awards (to Luce County Housing Commission):			
Section 8 Vouchers	14.871	C-8091V	400,139
Section 8 Supplement	14.182	N/A	157,998
Total Direct Awards			558,137
Pass-through from the Michigan State Housing Development Authority (MSHDA):			
Michigan CDBG Housing Program	14.228	MSC-2005-754-HOA	82,563
Total U.S. Department of Housing and Urban Development			640,700
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through from the State of Michigan Department of State Police, Emergency Management Division:			
Marine Safety	97.012	N/A	26,013
2005 Homeland Security Grant Program	97.004	N/A	1,492
2006 Homeland Security Grant Program	97.004	N/A	27,725
Emergency Management Performance Grant	97.042	N/A	2,346
Total U.S. Department of Homeland Security			57,576
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:			
Pass-through from the State of Michigan			
Department of Human Services:			
Title IV-D Incentive Payments	93.563	N/A	13,163
Friend of the Court - Cooperative Reimb. 10/01/06-09/30/07	93.563	CS/FOC-07-48001	75,485
Friend of the Court - Cooperative Reimb. 10/01/07-09/30/08	93.563	CS/FOC-08-48001	26,580
Prosecuting Attorney - Cooperative Reimb. 10/01/06-09/30/07	93.563	CS/PA-07-48002	10,913
Prosecuting Attorney - Cooperative Reimb. 10/01/07-09/30/08	93.563	CS/PA-08-48002	2,682
Subtotal - DHS			128,823
Pass-through from the State of Michigan			
Department of Community Health: (to LMAS District Health Dept.)			
Family Planning Project	93.217	05H000173	27,420
Immunization Program IAP - Child Immunization Grants	93.268	H23-CCH522556	11,070
Vaccine Provided -Value	93.268	N/A	209,903
Centers Disease Control Prevention Investigation Tech Assist -Bioterrorism	93.283	CCU517018	206,175
Breast and Cervical Cancer Control Program	93.283	U57-CCU506738	51,131
Medicaid Administration - Case Management Services	93.778	5XX05MI5048	12,065
Title XIX - Medicaid Program	93.778	N/A	120,958
Maternal & Child Health Services - Family Planning Project	93.994	B1MIMCHS	5,539
Family Planning Project - Local MCH	93.994	B1MIMCHS	35,900
Maternal & Child Health Services - Case Mgmt Services	93.994	B1MIMCHS	8,142
Subtotal - DCH			688,303
Pass-through from the Eastern Upper Peninsula Substance Abuse Services (EUPSAS): (to LMAS District Health Dept.)			
Adult Benefit Waiver	93.767	N/A	13,065
Medicaid	93.788	N/A	28,377
Substance Abuse Prevention	93.959	N/A	72,000
Substance Abuse Treatment	93.959	N/A	88,000
Subtotal - EUPSAS			201,442
Total U.S. Department of Health and Human Services			1,018,568

County of Luce, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY:			
Pass-through from the State of Michigan Department of Environmental Quality (MDEQ): (to LMAS District Health Dept.)			
EPA Cap Grant for the Drinking Water Revolving Fund	66.468	FS97548704	600
State Grant to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	CT975861	2,800
Beach Monitoring & Notification Program	66.472	CU97592401	9,476
Total U.S. Environmental Protection Agency			12,876
U.S. DEPARTMENT OF EDUCATION:			
Pass-through programs from:			
Alger Intermediate School District: (to LMAS District Health Dept.)			
Early On-Service Coordination & Discretionary Funds	84.181	1349/190	6,927
Subtotal - AISD			6,927
Pass-through programs from:			
Schoolcraft Intermediate School District: (to LMAS District Health Dept.)			
Schoolcraft County Early On	84.181	N/A	18,349
Subtotal - SISD			18,349
Total U.S. Department of Education			25,276
U.S. DEPARTMENT OF COMMERCE:			
Pass-through programs from:			
Michigan Department of Environmental Quality			
Coastal Zone Management Grant	11.419	06-310-02	5,354
Total U.S. Department of Commerce			5,354
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from:			
Michigan Department of Transportation			
Airport Improvement Program (See Note F)	20.106	B-26-0042-0707	376,000
State Administered Road Projects	20.205	STP 0548(007)	343,513
Subtotal - MDOT Administered			719,513
Pass-through programs from:			
Michigan Department of State Police			
Youth Alcohol Enforcement Grant	20.601	MIPS	12,140
Hazardous Materials Emergency Planning Grant	20.703	120104-018	625
Subtotal - MDSP			12,765
Total U.S. Department of Transportation			732,278
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,668,783

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Luce, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B - OVERSIGHT AGENCY:

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of direct awards to the County during 2007.

NOTE C - FEDERAL EXPENDITURES OF COMPONENT UNITS:

The following component units of Luce County had separate audits performed during 2007:

- Luce County Road Commission
- Luce County Housing Commission
- Luce Mackinac Alger Schoolcraft District Health Department
- Helen Newberry Joy Hospital

Federal expenditures incurred by each of the component units (if any) are included in the accompanying schedule.

NOTE D - RECONCILIATION TO BASIC FINANCIAL STATEMENTS:

The following is a reconciliation of the amounts reported on the basic financial statements to the schedule of expenditures of federal awards:

Total Federal per Financial Statements	
Revenues - Primary Government	\$ 702,081
Add: Component Unit Federal Expenditures	<u>1,966,702</u>
Total Federal Revenue Recognized per Schedule of	
Expenditures of Federal Awards	<u>\$ 2,668,783</u>

NOTE E - ROAD COMMISSION GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$343,513 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the road commissions as they are included in MDOT's single audit.

NOTE F – AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2007, the Federal aid received and expended by the Airport was \$376,000 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? Yes

Noncompliance material to financial
statements noted? Yes

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? No

Type of auditors' report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

14.182	Section 8 Supplement
14.871	Section 8 Vouchers
93.283	Bio Terrorism
93.268	Immunization program and Vaccine

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

*Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles*

Finding 07-1

Condition: As part of the audit process, the County, like many other governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. The county requires the assistance of the independent auditors to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements rests with the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the County's internal controls. By definition, independent auditors cannot be part of the County's internal controls.

Cause: Change in application of auditing standards.

Recommendation: We recommend the County consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the County choose not to address this issue, management and the Board of Commissioners should realize that an increased risk is present.

This recommendation is not intended to imply that the County's contractual arrangement with the independent auditors, which includes preparation of the financial statements, is improper or should be changed. SAS 112 does not require that management actually prepare the financial statements, but it requires the independent auditors to comment when the applicable internal controls are not in place.

Section II – Financial Statement Findings (Continued)

Planned Corrective Action: Historically it has been the practice for the independent auditors of Luce County to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. Prior to the current audit, this was not considered a material weakness or deficiency in internal controls of the County in any way. Management was not required to obtain all of the specific training to create the details of such reports and relied on the auditors for this process.

As recommended, the County Treasurer and County Clerk will now seek to obtain, through education and communications, specific knowledge that was not considered a deficiency prior to SAS 112 to advise the Board of Commissioners of options available to address the deficiency. The County Board of Commissioners will need to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the County.

- Contact Person(s) Responsible for Correction:
Deborah Johnson, Treasurer

Excess Expenditures Over Appropriations

Finding 07-2

Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended December 31, 2007, the County incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Airport Fund:			
Capital Outlay	\$ -	\$ 470,000	\$ (470,000)

Effect: The County has not complied with various State Statutes.

Cause: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The County should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Plan Corrective Action: The budget will be more closely monitored and budget amendments will be made accordingly.

- Contact Person(s) Responsible for Correction:
Deborah Johnson, Treasurer

Section II – Financial Statement Findings (Continued)

Delinquent In Distributing Tax Revenues

Finding 07-3

Condition/Criteria: The disbursement of current tax collections, to the respective townships was not conducted in a timely manner as of December 31, 2007. The disbursement was not performed within the time limit specified by regulation..

Effect: Current tax collections were not remitted in a timely manner to other taxing units.

Cause: Unknown.

Recommendation: To ensure timeliness of tax disbursements, disbursements should be made within 10 business days in accordance with Department of Treasury regulations.

Plan Corrective Action: The board has implemented compensating controls to reduce the risks discussed above.

- Contact Person(s) Responsible for Correction:
Deborah Johnson, Treasurer

STATUTORY COMPLIANCE

Deficit Fund Balances/Net Assets

Finding 07-4

Condition: As of December 31, 2007, a deficit existed in the unreserved fund balance (governmental funds) in the following fund:

	<u>Fund Balance</u>
Special Revenue:	
Juvenile Justice	\$ (1,045)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans.

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

Section II – Financial Statement Findings (Continued)

The County failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Cause: Unknown.

Recommendation: We recommend the County to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2007, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

Plan Corrective Action: It was not possible for the County to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.

- Contact Person(s) Responsible for Correction:
Deborah Johnson, Treasurer

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES – INTERNAL CONTROL

Segregation of Duties – Ambulance Department

Finding 98-2

Condition/Criteria: The office secretary of the ambulance department handles nearly all phases of the accounting function, such as accounts receivable, accounts payable, posting to the general ledger, reconciling, receipting and depositing funds. To maintain a strong internal control system in an organization, one employee should not have responsibility for all phases of an accounting system.

Effect: Lack of segregation of duties increases the risk that errors and irregularities could occur and not be detected in a timely manner.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Response: The board has implemented compensating controls to reduce the risks discussed above.

Status: No change.

Segregation of Duties – EDC (Component Unit)

Finding 99-1

Condition/Criteria: In our assessment of the internal control structure of the EDC, we noted that bookkeeping duties are handled by one individual including accounts receivable, accounts payable, posting to the general ledger, reconciling, and depositing funds. This person also handles bank deposits.

Effect: Lack of segregation of duties increases the risk that errors, omission, and irregularities could occur and not be detected in a timely manner.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Response: The board has implemented compensating controls to reduce the risks discussed above.

Status: No change.

Section II – Financial Statement Findings – (Continued)

SIGNIFICANT DEFICIENCIES – NON-COMPLIANCE

Excess Expenditures Over Appropriations

Finding 06-1

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended December 31, 2006, the County incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Other Expenditures	\$ 165,651	\$ 191,164	\$ (25,513)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The County should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management's Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

Status: Similar instances of noncompliance occurred in 2007.

Delinquent In Distributing Tax Revenues

Finding 06-2

Condition/Criteria: The disbursement of current tax collections, to the respective townships was not conducted in a timely manner as of December 31, 2006. The disbursement was not performed as of April 21, 2007.

Effect: Current tax collections were not remitted in a timely manner to other taxing units.

Cause of Condition: Unknown.

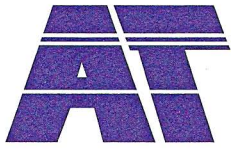
Recommendation: To ensure timeliness of tax disbursements, disbursements should be made within 10 business days in accordance with Department of Treasury regulations.

Management's Response – Corrective Action Plan: The board has implemented compensating controls to reduce the risks discussed above.

Status: Similar instances of noncompliance occurred in 2007.

Section III – Federal Award Findings and Questioned Costs

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Chairman and
Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Luce, Michigan for the year ended December 31, 2007, and have issued our report thereon dated June 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 9, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County of Luce, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Luce, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Luce, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Luce, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Luce, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 9, 2007.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Luce, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Personal Property Taxes (Prior Year)

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Fraud Policy (Prior Year)

With the implementation of statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Payroll

During the test of controls on payroll, it was determined that check images were not available. It is recommended that the County keep cancelled check images for subsequent viewing.

Juvenile Justice Fund

As of December 31, 2007 the Juvenile Justice Fund had a deficit in fund balance. The County should examine fund balances at year end and make sure there are no fund balance deficits.

Check Images

Due to changes in bank practices, the County does not receive canceled checks. The County should contact the bank to obtain, "imaged" checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2008